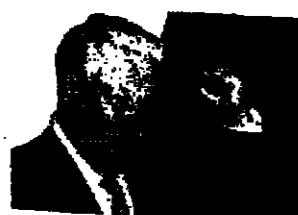


# FINANCIAL TIMES



**Russia**  
A rebuke  
for Yeltsin

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**Bosnia**  
New wrongs  
heaped on old

Edward Mortimer, Page 10

**Hong Kong**  
The search for  
a chief executive

Page 5



**Today's surveys**  
Saudi Arabia  
Slovakia  
Separate sections

World Business Newspaper

## Glaxo Wellcome sells \$1bn stake in US joint venture

UK pharmaceuticals group Glaxo Wellcome announced the \$1bn sale of its interest in a joint venture over-the-counter drugs company. Glaxo agreed to sell its interest in Warner Wellcome, a joint venture formed two years ago with US drugs and consumer products company Warner Lambert. The sale was intended to focus Glaxo Wellcome's efforts on "discovering and developing prescription products", the company said. Page 13; Lex, Page 12

## Communists tighten grip on Russian parliament

The Communist party strengthened its grip on the Russian parliament when election results showed it had done unexpectedly well in single-member constituencies which account for half the seats in the lower house. The Communists are now likely to secure about one-third of the seats in the lower chamber under Russia's complex electoral rules. Page 12 and Lex; Chernoymirin takes first line, Page 2; After the dress rehearsal; Page 11

**Vote setback for UK government:** The fragile unity in the ruling UK Conservative party over European Union policy was shattered when it lost a vote on the EU's common fisheries policy by 299 votes to 297. Page 7

**Brussels ducks Euro requirement decision:** The European Commission left open the question of whether countries aspiring to join the single currency must, beforehand, be members of the exchange rate mechanism. Page 12

**French building chief quizzed by police:** Police questioned Martin Bouygues (left), chairman of French construction group Bouygues, and searched the company's headquarters in the latest in a series of high-profile corporate investigations. He was questioned in relation to a corruption investigation, opened in 1994, concerning receipt and misuse of corporate funds, centred on alleged payments to Swiss bank accounts by a number of large French companies. Page 12

**Boeing shares jump \$3 to \$75 in early trading** - a rise of 4 per cent - after the world's biggest aircraft maker indicated the long recession in the world civil aircraft industry was coming to an end. Page 13

**139 feared dead in African air crash:** All but five of the 144 people on board a Zairean passenger aircraft are feared dead after it crashed in northern Angola.

**PolyGram, the world's largest music group,** warned that net profits would be static in 1995 because of adverse exchange rates, a dearth of successful films and the delay in releasing a number of albums. Shares in the Dutch group fell 9.2 per cent. Page 13; Lex, Page 12

**Kidnapped Swiss billionaire freed:** Billionaire Swiss businessman Geo Montegazza, kidnapped from his office in southern Switzerland, was freed after a massive police hunt.

**Japan to liquidate seven loan groups:** The Japanese cabinet endorsed a scheme to liquidate seven troubled housing loan companies, in a move which will involve the unpopular use of at least Y\$65bn (Rs.6bn) in public funds. Page 5

**Germans in \$1.1bn ship deal with Hyundai:** South Korea's largest shipbuilder, Hyundai Heavy Industries, said it had received a total order of \$1.1bn from two German shipping groups. Page 4

**Algerians killed by car bombs:** Two Muslim fundamentalists were killed when the bomb in the car they were driving exploded during a chase by security forces in Algeria.

**Dunlop Slazenger, one of the world's leading sporting goods manufacturers, is to be sold to a management buy-out team for more than £300m (\$475m) by UK industrial conglomerate BTR.** Page 13; Lex, Page 12

**Belgian strikers cause transport chaos:** A fresh wave of strikes at Belgian national railways and the national airline Sabena plunged the transport sector into chaos. Page 2

**Bank of France staff halt job cuts:** Bank of France workers disrupted a meeting scheduled to announce up to 800 job cuts, and forced the government to agree to a three-month delay for further talks. Page 3

**US LUXEMBOURG RATES**

USC 3-10y Interbank 5.75% (6.14%)  
USC 10y Gilt 10.81% (10.74%)  
Long Bond 10.70% (10.61%)  
Germany 10y Gilt 10.88% (10.78%)  
Japan 10y JGB 11.46% (11.37%)

**OTHER RATES**

Australia 10y Interbank 5.75% (6.14%)  
UK 10y Gilt 10.81% (10.74%)  
France 10y OAT 10.70% (10.61%)  
Germany 10y Bund 10.88% (10.78%)  
Japan 10y JGB 11.46% (11.37%)

**NORTH SEA OIL (Arrears)**

Brent 15-day Feb. \$17.75 (17.59)  
Tapis 5 days \$10.58

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## Fleet Financial buys NatWest Bancorp for \$3.56bn

US group makes second acquisition to expand in New England

By George Graham in London

National Westminster Bank yesterday agreed to sell its US retail banking subsidiary to Fleet Financial Group in a deal valued at \$3.56bn.

The acquisition is the second major expansion this year for Fleet, which has only just completed the \$3.3bn purchase of Shawmut National and now spreads further down the east coast of the US with the addition of NatWest Bancorp's branches in New York and New Jersey.

Mr Terry Murray, Fleet's chairman, aims to create a New England-based institution capa-

ble of competing with big national rivals. Although he expects to slim down Fleet's balance sheet by selling off around \$3bn of government securities, the NatWest Bancorp acquisition will leave Fleet with total assets of around \$36bn.

NatWest said the pace of consolidation in the US banking market meant Bancorp could not have maintained its competitive position without substantial further investment, which could not be justified by the returns. By

taking around \$15bn (\$22bn) of weighted risk assets off NatWest's balance sheet, the deal releases around \$10bn of capital, which the British bank said it could use for manageable acquisitions in US commercial and retail banking, investment banking and private banking.

Mr Derek Wanless, NatWest's chief executive, said the group had "no plans to acquire a major US investment bank".

Instead, NatWest said it was reviewing the option of returning surplus funds to shareholders through a share buyback. This year's annual general meeting authorised the repurchase of up to 100m shares, representing 5.6 per cent of NatWest's capital.

The purchase price is well

below the figure of \$4bn widely anticipated when NatWest

announced in September that it

was discussing the sale. At roughly 1.7 times book value, it is also lower than many compa-

nies in the US.

Mr Wanless said the price had

been depressed because a US pur-

chaser paying cash has to am-

ortise goodwill, and thus sees its

earnings suffer. "We were aware

it would be more difficult because of the goodwill hit," he

said.

Fleet is to make an initial cash

payment of \$2.8bn, but will have

the option to pay up to \$175m of

its common stock and up to

\$300m in preferred stock.

Fleet will also make annual

cash payments effectively equal

to half Bancorp's annual post-tax

earnings to NatWest, up to a total

of \$55m.

These deferred payments,

which ease Fleet's goodwill

accounting problem, could

Continued on Page 12

## OECD cuts forecasts for leading economies

By Gillian Tett in Paris

The Organisation for Economic Co-operation and Development yesterday downgraded its forecasts for six out of seven of the world's leading economies, and projected a weaker than expected pace of world growth.

The move by the Paris-based body, which acts as a think-tank for 28 of the world's industrialised economies, highlights the disappointing nature of the European and Japanese recoveries this year.

Indeed, the OECD admitted that recent data suggested that the prognosis for German growth this year was still worsening. Recent strikes in France had probably also reduced growth this year, it added.

This shift yesterday led the OECD to hint that there might be scope for further reductions in German interest rates, on top of the recent cut by the Bundesbank if growth slowed further.

But it insisted that the Bundesbank would need to act "very very cautiously", and could not do anything that might seem like a "loosening of policy".

And with the OECD now admitting that growth in the US was stronger in the second half of the year than it originally expected, it warned that US indicators remained too finely balanced to change rates at the moment.

With the exception of the US, the OECD yesterday downgraded

all its forecasts for growth in the G7 economies this year. Next year it expects activity to rebound, since the fundamentals remain healthy: overall growth in the OECD region is expected to be 2.6 per cent.

However, growth this year is expected to be only 2.4 per cent - about 0.25 percentage points less than the OECD projected in the summer and 0.5 points less than it projected a year ago.

Part of this trimming of the forecasts reflects slower expansion in Japan this year - a trend the OECD thinks should be reversed next year, particularly if the yen weakens further.

However, the cuts also reflect the weaker than expected performance in Europe, particularly Germany. In November the OECD projected that the German economy would grow 2.1 per cent this year and 2.4 per cent next year. It now thinks even these forecasts are too optimistic by about 0.25 percentage points.

Growth in France has also been revised down. In November the OECD projected growth of around 2.7 per cent this year, but it now thinks growth will be nearer 2.4 per cent.

This might be still regarded as too optimistic by some in France: the French employers federation yesterday warned that the strikes had cost FF120bn (\$4.1bn).

OECD sees tiny cut in unemployment, Page 6

Editorial Comment, Page 6

Richard Holbrooke, above, main architect of the Bosnian peace deal, is due to return to Wall Street as an investment banker in the new year, after announcing his intention to leave the US State Department. Career diplomat John Kornblau will take over from him. Report, Page 6

Picture: Reuters

## AEG to sell automation and energy businesses to French

By Andrew Fisher in Frankfurt and John Riddiford in Paris

AEG, the lossmaking subsidiary of Germany's Daimler-Benz, is to sell businesses making up a third of its turnover to Alcatel Alsthom of France in a significant reshaping within the European electrical and electronics industry.

The sales consist of AEG's profitable energy distribution division, with sales of DM2bn (\$1.3bn) and 9,000 employees, and its lossmaking systems and automation activities, with DM1.5bn turnover and 6,000 people. They take effect from January 1.

Widely expected in view of AEG's big losses, expected to exceed DM1bn this year, the deal announced yesterday are part of the gradual dismantling of the company, which also plans to close its Frankfurt headquarters. AEG's works council said heavy job losses would result, but the company said 500 job cuts had already been agreed on the energy side and 1,200 to the manu-

facturing of automation equipment. With Daimler's aerospace division also suffering from the impact of the weak dollar - the main currency used in the industry - and high costs in Germany, Mr Jürgen Schrempp, Daimler's chairman, was keen to agree both disposals this year. The group, which owns the profitable Mercedes-Benz car and truck manufacturer, has forecast a heavy loss for 1995.

The sales consist of AEG's profitable energy distribution division, with sales of DM2bn (\$1.3bn) and 9,000 employees, and its lossmaking systems and automation activities, with DM1.5bn turnover and 6,000 people. They take effect from January 1.

Mr Schrempp said the sale of the two AEG divisions was part of Daimler's streamlining efforts. "It also marks a continuation of our drive to restore profitability." Alcatel Alsthom, with activities in transport, telecommunications and engineering, said the deal would strengthen two of its core businesses, enabling a significant expansion in the German market.

It would also push GEC-Alsthom's joint venture with GEC in the UK, to the dominant position in international power transmission and distribution. GEC-Alsthom is buying the energy activities outright. Cegese, the electrical engineering arm of the French company, will hold 51 per cent of a new holding company containing the systems and automation business of AEG which will initially keep 49 per cent.

The French group declined to comment on the price paid, but said that the group's annual sales of about FF117bn (\$34bn) would be increased by FF85bn. GEC-Alsthom's sales in power distribution will rise from FF11.5bn to FF18.5bn. The deal will strengthen its presence in Germany, where its workforce will double to 12,000, and in eastern Europe and south-east Asia.

By taking control of the automation side of AEG, Cegese will strengthen Alcatel Alsthom's presence in environmental, petrochemical and manufacturing industries. It will also provide a significant expansion in Germany, increasing Cegese's sales there from about FF1.4bn to FF3.5bn.

## Dow surges as short-term rates are cut to 5.5%

By Michael Prowse in Washington

The Federal Reserve yesterday moved to stimulate the US economy by cutting short-term interest rates by a quarter point to 5.5 per cent. It said the move was justified by declining inflationary pressures.

The discount rate, at which the Fed lends to banks, was left unchanged yesterday at 5.25 per cent. However, it is of largely symbolic significance as little borrowing occurs at the "discount window".

The Fed's announcement followed signs of growing apprehension about economic prospects in the business and financial community. Chief executives of large US companies put advertisements in leading newspapers yesterday calling on Congress and the White House to reach a compromise plan to balance the federal budget over seven years.

On Monday the Dow Jones Industrial Average fell more than 100 points on fears that the Fed would delay a rate cut until a deal on the budget was agreed.

US economists said an easing of policy was appropriate given the recent deceleration in economic growth and a series of encouraging figures on inflation. In July the Fed predicted inflation of 3.3.5 per cent this year. But figures last week showed the consumer price index up 2.6 per cent in the year to November.

Government bonds, Page 20

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## NEWS: EUROPE

Chernomyrdin takes firm line in face of Communist poll gains

# Russian PM promises to continue inflation fight

By John Thornhill  
in Moscow

Mr Victor Chernomyrdin, Russia's prime minister, yesterday promised that his government would not deviate from its tough anti-inflationary programme despite the gains made by the Communist party in Sunday's parliamentary elections.

The government intends to continue its economic course. What is essential for us is stability and above all economic stability," the prime minister said in a speech to the upper house of parliament.

But he hinted that the government could soften some economic policies providing "political support" to high-tech companies, increasing some import duties, and paying compensation to the elderly whose savings have been eroded by high inflation.

Mr Chernomyrdin, whose Moderate Our Home is Russia movement won just 10 per cent of the votes in the ballot for the lower house of parliament, said the government's policies would ensure the Russian economy started growing again in 1996 after five consecutive years of decline.

He also forecast inflation would fall to below an annual rate of 30 per cent in the first six months of 1996 as a result of the tough monetary policies pursued this year.

The upper house of parliament yesterday backed the government's stance and

approved the tough draft budget for next year, removing the last legislative hurdle.

It also backed a long-awaited production-sharing bill designed to attract foreign investment to Russia's oil industry - although the government described it as "unworkable" after being heavily diluted.

The government's economic forecasts have been broadly supported by a review conducted by the Organisation for Economic Co-operation and Development which suggested the economy could grow by 2 per cent in 1996 accelerating to 4 per cent in 1997 "provided the momentum of the progress with financial stabilisation maintained and in the absence of major adverse political shocks".

Political observers said the government's promise to press ahead with tough economic reform appeared a bold strategy ahead of the presidential election in June.

The results of the parliamentary elections have been widely interpreted as a protest vote against the pain of economic reform which could lead to the election of a Communist or nationalist president next year.

On Monday, Mr Alexander Shokhin, the former economics minister and campaign manager for Our Home is Russia, admitted the elections showed people were tired of "excesses of reforms" and promised "people must feel the results of eco-



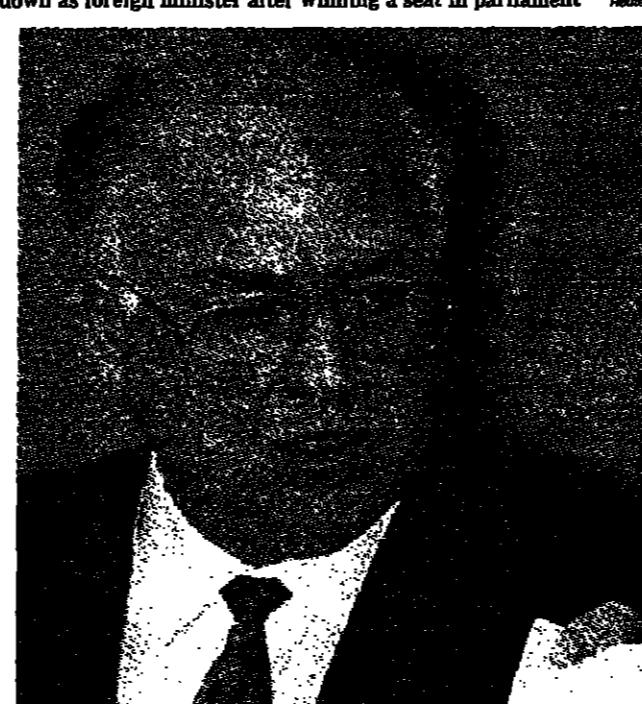
Andrei Kozyrev (above left, with an aide) said yesterday he would consult President Boris Yeltsin before deciding whether to step down as foreign minister after winning a seat in parliament

not just in statistics".

The International Monetary Fund, which has backed Russia's reform programme, has praised the government's success in cutting monthly inflation from 17.5 per cent in January to an expected 3.5 per cent this month. But, despite an improvement since the summer, some 30m Russians - or one fifth of the population - are still estimated to live below the official poverty line.

Mr Richard Layard, an economics professor from the London School of Economics and adviser to the Russian government, said last week that the preliminary parliamentary approval of the draft budget, the appointment of a competent central bank governor, and continuing discussions with the IMF over a three-year loan would help keep economic reform on track irrespective of the political climate.

After the dress rehearsal, Page 11 Lex, Page 12



Victor Chernomyrdin: "What is essential for us is stability and above all economic stability."

# Nationalist surge worries neighbours

By Matthew Kaminski in Kiev

The strong showing by Communists and ultra-nationalists in Russia's parliamentary election has caused anxiety among newly-independent neighbouring states.

From Tallinn to Kiev, government officials fear a hard-line foreign policy emerging in Moscow after a third of Russian voters backed political parties whose appeal partly rested on promises to revive Russia's greatness or restore the Soviet Union. They doubt that Mr Victor Chernomyrdin, the Russian prime minister, can keep his promise not to change course.

A more aggressive line from

"In one way or another, Russian policy will have to change," said Mr Aleksei Stoichev, chief of policy planning at the Estonian foreign ministry. "We're worried our bilateral relations and the upcoming presidential elections [in Russia], will be shaped by the struggle between extremist groups."

The resilience of Mr Vladimir Zhirinovsky's Liberal Democratic party might lead to increased calls to incorporate the three Baltic countries into western security structures, including Nato, and clarify Ukraine's strategic role in the volatile region.

Mr Boris Sobolev, leader of the Reform group in Kiev's parliament, argued that the

Communist revival and the surprising strength of nationalist parties reflected the depth of "Russian great power chauvinism".

Ukraine has tried to resist Russian pressure for closer economic and military co-operation, and instead has attempted to improve relations with western countries. It was the first ex-Soviet republic to join Nato's Partnership for Peace programme.

Mr Konstantin Hrischenko, Ukraine's deputy foreign minister, said uncertainty about Russia's future should lead the west to back Ukrainian independence and be careful in eastward expansion of Nato.

Opinion polls suggest voters have not forgave Mrs Ciller for plumping living standards and heavy unemployment. Polls put her conservative True Path party in fourth place.

The Islamic fundamentalist Refah party is leading, fol-

"We don't want to be left between two enemy blocs," he said.

The Baltics' relations with Moscow are complicated by the presence of a sizeable Russian minority - whose welfare and civil rights, the election showed, remain a potent political issue in Russia. "The more powerful the ultra-nationalists become the greater becomes the need for the Baltic countries to gain security guarantees from the west," said Mr Stoichev.

But, he added, it would be June's presidential elections which would hold the key to future relations between Russia and its former colonies in the so-called "near abroad".

Having ended speculation about his own plans on Monday, when he agreed to head the Socialist party campaign again in the next election, Mr González has opted for an experienced professional as foreign minister rather than risk promoting a politician for what may be a short stint in the job.

The general election, which polls suggest will favour the conservative Popular Party over the Socialists, has been provisionally promised for March, but a new government would probably not be in place until May. The foreign minister will therefore have an important role in discussing guidelines for revision of the Maastricht Treaty at next year's EU Inter-governmental Conference, due to be launched in Turin on March 29.

Mr Westendorp (whose grandfather came from Holland) has spent the past six months chairing the "reflection group" set up to pave the way for the conference, and drawing up its report for the Madrid summit.

## EU to resolve steel wrangle

European Union industry ministers meet in Brussels today to try to resolve the dispute between London and Dublin over the Irish Steel rescue plan, which the UK claims threatens British jobs and breaks EU state aid rules. The three-month wrangle over subsidies to the loss-making Cork-based concern threatens wider UK-Irish political relations at a critical time in the Northern Ireland peace process. London is objecting to Dublin's agreement with Ispat International, an Indian steel company, under which Dublin would provide 120m in state aid to restructure Irish Steel's debts. British and Irish officials failed to find a solution during talks in Dublin over the weekend. Asked about the dispute in the House of Commons yesterday Mr John Major, the UK prime minister, said: "If we cannot agree it won't be for lack of trying on our part."

Mr Lakshmi Mittal, chairman and chief executive of Ispat International, said yesterday the UK demands were "designed to bring about the demise of steelmaking in Ireland". He accused the British of going back on an earlier production accord, which Ispat had "reluctantly agreed" to last month. Irish Steel had output of around 243,000 tonnes of finished product in 1994, and under the deal, Ispat proposed to increase that to 350,000, the registered capacity of the plant. Mr Mittal said the UK was now demanding reductions of more than 35,000 tonnes of production over five years.

This he said would "ensure that Irish Steel remains uncompetitive in both the European and International steel markets".

John Murray Brown, Dublin Editorial comment, Page 11

## Strikes hit Belgian travel

A fresh wave of strikes at Belgian national railways and the national airline Sabena yesterday plunged the transport sector into chaos. Most Sabena flights were cancelled and train traffic was halted in the south of the country. The rail strike followed a decision by the board of Belgian Railways to approve a restructuring scheme to save BFr70bn (\$2.4bn) and cut 5,500 jobs over the next 10 years without consulting the unions. Sabena workers are angered by management plans to freeze wages and increase working hours.

Reuter, Brussels

## Hungary agrees IMF standby

The International Monetary Fund said yesterday it had reached the basis for an agreement with Hungary over a much delayed 18-month stand-by arrangement, pending parliamentary approval of satisfactory 1996 budgets for the country's two social security funds. Parliament is not expected to pass the budgets for the semi-independent funds until early next year. Hungary's Socialist-led government has been trying to reach agreement with the fund ever since taking office in July 1994. The government, which recently repaid some of Hungary's earlier IMF loans ahead of schedule, does not intend to draw on the credit but hopes IMF approval of its economic programme will boost international confidence in its market-led reforms.

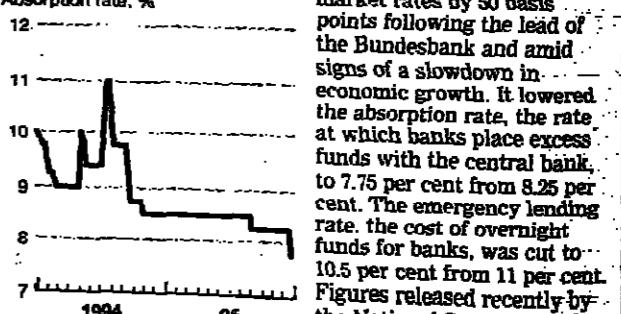
Virginia March, Budapest

## ECONOMIC WATCH

### Portugal cuts interest rates

#### Portugal

Absorption rate, %



Portugal's growth rate has decelerated in the second half of 1995. Exports, industrial production and investment were all growing at a slower pace mainly because of weaker demand from other European Union countries.

The Bank of Finland yesterday made the fourth cut in its main short-term interest rate in three months, saying it had revised downwards its inflation forecasts for the next two years. The decision, cutting the tender rate from 4.75 per cent to 4.25 per cent, means rates have been cut by 1.75 percentage points since September. The fall will raise hopes of a faster pick-up in the domestic economy, helping to combat unemployment rising at 18 per cent of the workforce. The central bank now expects the underlying rate of inflation to remain well below 2 per cent in 1996 and 1997. This year the annual rate has run at less than 1 per cent, reflecting lower food prices since Finland joined the EU in January and the effects of the strong markka.

Hugh Carney, Stockholm

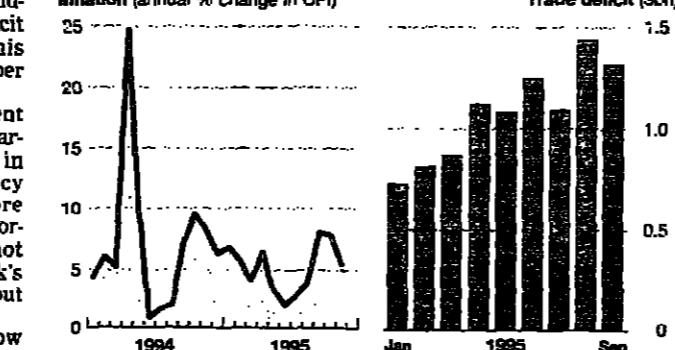
Austrian inflation fell by 0.1 per cent month-on-month in November but remained at 1.9 per cent year-on-year. Sweden's industrial production rose a preliminary 0.5 per cent in October from September and was up 6.2 per cent from a year earlier. Industrial orders in October were down 4.0

# Turkey finds economic options have narrowed

Whoever emerges as winner in Sunday's general election will have little choice but to take tough remedial action, reports John Barham

#### Turkey

Inflation (annual % change in CPI)



Opinion polls suggest voters have not forgave Mrs Ciller for plumping living standards and heavy unemployment. Polls put her conservative True Path party in fourth place.

The Islamic fundamentalist Refah party is leading, fol-

owed by the conservative Motherland party and the moderate Democratic Left.

Understandably, politicians avoid saying how severe their emergency programme will be. Still, a Motherland party adviser says "spending must be cut immediately, the currency must be devalued and state companies' prices must rise by 40-45 per cent". This will cause a temporary burst of heavy inflation early next year before the economy can be stabilised.

Rapid action will be needed to meet next year's debt repayment schedule. About three-quarters of the Treasury's \$2.1bn domestic debt matures by May.

Although politicians deny they would rescinde these debts, markets fear the next government may have no choice. Ms Miranda Xafas of US investment bank Salomon Brothers: "The best case scenario is for a strong coalition

productivity and quality, inadequate management and weak finances. Many small and medium-sized companies may fold, worsening already heavy unemployment.

Perversely, Turkey's low incomes offer its companies a degree of protection. According to Mr Erol Ergene, who runs Akçelik, a small steel company, his customers "are not prepared to pay more for better quality [EU] goods".

However, increased investment, not trade, will probably be the customs union's greatest reward. Turkey attracts less than \$1bn a year in inward investment, most of it from the EU. Bankers say there are plenty of local businesses needing a capital injection or a strategic alliance with an EU partner. Furthermore, Turkey has a large domestic market of 62m people and its low costs make it an attractive export base.

In time, more investment will create jobs and raise incomes. It will strengthen Turkish management and improve workers' skills. Looking further into the future, the customs union could even help stabilise the economy.

# Companies braced for import challenge

By John Barham in Ankara

The European parliament's approval last week of a customs union with Turkey means that nearly all barriers to trade between the European Union and Turkey will be abolished on January 1.

Political issues such as Turkey's human rights record and the rise of radical Islam dominated the parliament's ratification debate, obscuring the customs union's far-reaching economic effects.

The loss of Turkey's 6 per cent average tariff on imports from the EU will expose com-

panies to increased European competition. The Union scrapped most barriers to Turkish products long ago; so, in the short term, Turkey will benefit little.

Large locally-owned companies and multinationals based in Turkey are investing heavily in technology and new products to resist the competitive onslaught. Companies are also restructuring to achieve economies of scale. For instance, the Sabanci group, Turkey's second largest conglomerate, plans to boost turnover to \$15bn-20bn a year in 2002

from \$6bn now. McKinsey, the US consulting firm, is helping Sabanci reorganise itself.

The customs union has bolstered business confidence, particularly among the many small companies which make up the dynamic clothing and textile industry. The industry began investing aggressively this spring, as approval of the customs union looked increasingly probable. Exports could double to \$15bn a year in 2002, with most of the increase going to Europe.

Although Turkey has some excellent companies, most suffer from underinvestment, low

French business gloomy as unions flex muscles

# Strikes cost £2.6bn, say employers

By David Buchan in Paris

France's Patronat employers' federation yesterday added to increasing gloom about the country's growth prospects by estimating that the recent public sector strikes had added a FFr20bn (£2.6bn) bill to an economy that may already be in recession.

Mr Jean Gandois, the Patronat president, said his federation was in no position to play "Father Christmas" at the "social summit" of the government, employers and unions convened by Prime Minister Alain Juppé for tomorrow.

The Patronat would block any attempt by the unions to argue for a boost to consumer demand through general private sector wage increases, he said.

Mr Denis Kessler, a Patronat vice-president responsible for economic affairs, was more pessimistic than Insee, the government statistics agency, which on Monday put the strikes' cost at up to FFr8bn and forecast 0.1 per cent growth in the final quarter of this year and 0.7 per cent in the first half of 1996.

"We believe growth will be slightly negative in the final quarter, and therefore we could actually be in recession," said Mr Kessler, predicting output in the first three months would be flat and that no upturn would come before the second quarter of next year. These forecasts are likely to encourage the unions to use tomorrow's summit to press for relief measures benefiting their members.

While ruling out any further pay measures beyond the 4 per cent increase in the national minimum wage last summer, Mr Juppé has said tomorrow's meeting will discuss ways of restoring confidence and growth to the economy.

With monetary policy and

general interest rates in the hands of the Bank of France, the government is studying a series of possible micro-measures to boost the economy. These are understood to include allowing employees to take money out of employee-savings schemes to buy consumer durables, reducing the interest rate on government savings accounts, and pumping more public money into the building sector.

Mr Juppé has also put youth unemployment and reduction of working time on the "social summit" agenda. Mr Gandois said the Patronat believed that tomorrow's tripartite discussions could be useful in improving youth job schemes, but he strongly warned against any attempt by government to legislate on working time, which was already being negotiated between employers and

By Andrew Jack in Paris

Employees of the Bank of France yesterday disrupted a meeting scheduled to announce up to 800 job cuts, and forced the governor to agree to a three-month delay for further negotiations.

Unions at the bank, which operates independently from the French government, said more than 200 staff occupied a room where a works committee meeting was due to take place yesterday afternoon, interrupting discussions by chanting and playing musical instruments.

The action, out of keeping with the bank's reputation for calm monetary policy management, came after three weeks' of industrial action across the public sector and just a few days after it had twice lowered key interest rates in indications of confidence in the government's tough economic policies.

About 30 per cent of the bank's 17,000 staff went on strike for several days earlier this month as part of widespread protests against government plans to reform the social security system and reduce some "special regimes" for pensions, including the bank's own pension scheme.

Union leaders have warned that if they fail to get satisfaction at tomorrow's meeting, the protest movement could flare up again. But an after-work demonstration yesterday evening against Mr Juppé, the governor, has proposed cutting 800 jobs in the next three to four years in its banknote printing operations, as part of a plan to make the service competitive in the battle for future contracts including that for the single European currency.

In an echo of criticisms against prime minister Mr Alain Juppé's reforms, unions called yesterday for the withdrawal of the "Trichet plan" and argued that the government had failed to consult or discuss alternative suggestions.

The need to catch up on maintenance and safety work still prevented a full service on the SNCF which had to halt its TGV service to Brussels because of a Belgian rail strike. Garbage workers in Bordeaux, of which Mr Juppé is mayor, also yesterday ended a strike of nearly three weeks.

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## NEWS: WORLD TRADE

# Germans buy \$1.1bn Hyundai ships

By John Burton in Seoul

Hyundai Heavy Industries, South Korea's largest shipbuilder, yesterday announced that it had received a total order of \$1.1bn from two German shipping companies.

The German orders underscore the growing competition of Korean shipbuilders, with the European Union expressing concerns that a planned increase in their production capacity could eventually force European shipyards out of business.

Hyundai will build 15 container vessels for DSR-Senator and three container ships for Hansa Mare in an

order equivalent to a fifth of total ship production in Korea next year.

Benefiting from lower wages and production costs than Japanese and European rivals, Korean shipbuilders are predicted to post a higher increase in sales growth next year compared with 1995.

Ship production is expected to climb by 17.6 per cent to \$5.54bn in 1996, with almost all of that exported, against 4.4 per cent growth this year, according to the Korea Institute for Industrial Economics.

Sir Leon Brittan, the EU trade commissioner, recently criticised Korean shipyards for a rapid expansion of

capacity, which is set to grow from 4m gross tonnes in 1990 to 8m gross tonnes by 2000.

"We do not believe that world demand for shipbuilding services is sufficient to meet the supply being produced by Korea," he said last month in Seoul.

He called for an end to indirect state subsidies to Korean shipbuilders and urged the Seoul government not to "bail out any company that finds itself in difficulties because it has overestimated demand."

Daewoo, Korea's second biggest shipbuilder, was rescued by emergency government loans in 1989 to avoid a

threatened collapse caused by mounting losses. Officials then imposed a freeze on shipbuilding expansion until two years ago.

Seoul has promised not to give financial support or indirect subsidies to shipyards once it ratifies a multilateral shipbuilding agreement arranged by the Organisation for Economic Co-operation and Development.

But Korean shipyards still enjoy one financial advantage over European competitors because all of them belong to the country's largest industrial conglomerates, which can support them with funds from healthier sister companies in times of trouble.

## Living with S Korea and subsidies

FT reporters on the external pressures and internal wrangles of European shipyards

When South Korea's Hyundai Heavy Industries said yesterday that it had been asked to build 18 ships for German companies, west European shipbuilders must have been wondering what the announcement was right on cue.

In between slanging matches among themselves over the rights and wrongs of state subsidies for their embattled industry, European shipyard owners have been warning that the Koreans were now the biggest threat to their existence.

Ever since the Japanese - 30 years ago - and the Koreans - 20 years ago - began to challenge the dominance of European shipbuilders, Europe's position has been steadily eroded, driving many of the biggest yards in countries such as the UK and Sweden to the wall.

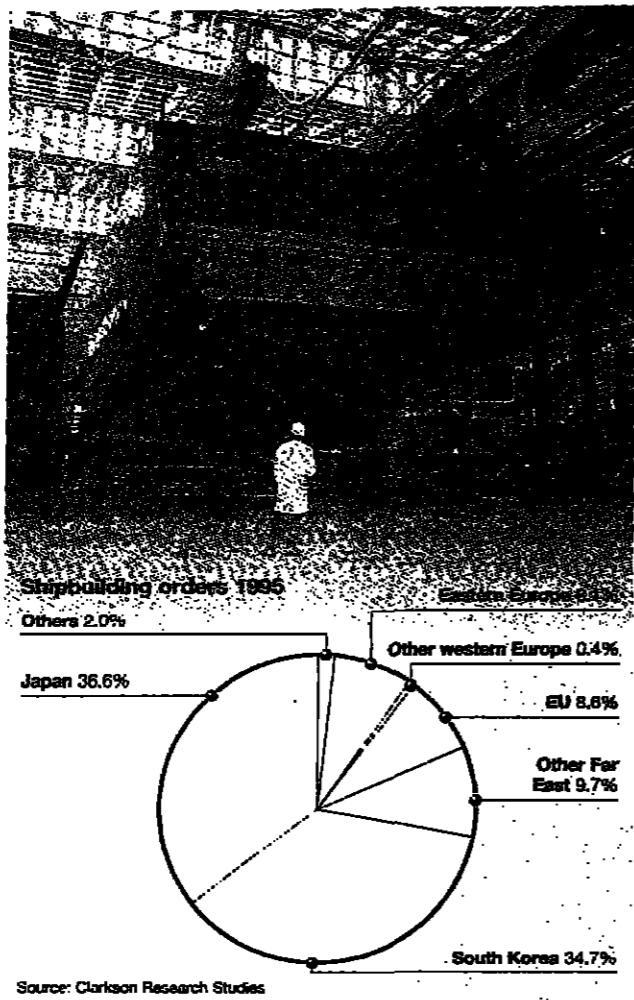
It has also forced a long period of painful restructuring as yards have moved to raise productivity and target more specialised market segments.

Despite these efforts, west European yards share of global orders has continued to fall.

The main beneficiary has been South Korea which has been aiming to double shipbuilding capacity between 1990 and the year 2000 and is so determined to win orders that some of its "newbuilding" prices have fallen below the levels at which many European yards can make a profit. Clarkson Research in London says average newbuilding prices fell 15 per cent between 1992 and 1994 before partly recovering in early 1995.

"The Koreans are aiming to overtake the Japanese and become the leading shipbuilding country in the world. But the expansion is absurd when it is perfectly obvious that the market cannot stand it," says Mr Nick Granger, director of the UK Shipbuilders and Shipreparers Association.

The heavy losses suffered by a range of European yards - including Burmeister & Wain and Danyard in Denmark and Germany's Bremer Vulkan - tell the story. Danyard has



been told it will get no more new capital from its owner, Lauritzen Holding. Burmeister & Wain is set to close after 152 years, partly because it specialised in the series construction of bulk carriers in direct competition with South Korean yards.

And South Korean competition for orders for tankers and dry bulk ships helps to explain why the Belfast yard Harland & Wolff has switched its marketing emphasis towards specialist vessels for the oil industry.

Kvaerner of Norway, Europe's leading shipbuilder, has so far managed to avoid many of the difficulties, partly because it has concentrated on

high value added and technically sophisticated vessels - such as cruise ships, chemical tankers and liquefied natural gas ships - where there is less Korean competition.

Meanwhile a delay of up to nine months in the phasing out of state aid to European Union shipbuilders has prompted fears among northern yards that unfair support for yards in southern Europe will damage them further.

Shipbuilders in the UK, Norway and Denmark complain that southern yards, particularly those in Spain and Italy, have benefited from unduly generous support regimes. Greece meanwhile faces a legal challenge from the European Commission to its aid to shipyards.

Spain, for example, is accused of paying shipbuilding aid and, in addition, support intended for depressed regions, amounting to a significant part of building costs.

Employees of insolvent Spanish yards which have been given court protection from their creditors are paid wage subsidies to maintain employment. But if an insolvent yard in this position wins an order, the wage subsidies are maintained so that the yard only has to pay a small amount to top up wages, said Mr Granger.

The Spanish shipbuilders deny that they are providing unfair subsidies and point out that they were anyway exempt of the deadline for phasing out subsidy which applied to most other EU countries.

Under the 1994 OECD agreement, Spain, Portugal and Belgium obtained extra leeway for state support to restructure their industries. In the Spanish and Portuguese case, this gives them until the end of 1998.

In the interim, the state-owned yards - mainly attached to the Astilleros Espanoles group - have remained consistently in the red, accumulating losses of more than \$3bn. The yards say they have often only been able to secure contracts by bidding below cost rates to compete.

Italy is less of a problem, according to the northern shipbuilders, because it is rationalising its shipbuilding activities. But a survey carried out in September 1994 of European shipyard subsidies for the UK trade department found that while no country had filed data more recently than 1991 Italy had not presented any information more recent than 1989.

Fincantieri, Italy's state-controlled shipbuilder, rejects charges that illegal or hidden subsidies are helping it to improve its order-book and increase profits, at the expense of northern shipyards. The yards say they have often only been able to secure contracts by bidding below cost rates to compete.

The problem for the northern yards is that while they believe the practices of the southern countries go against the spirit of competition rules they are often not illegal.

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Reporting by Christopher Brown-Hunes in Stockholm, Charles Bachelor in London, Andrew Hill in Milan, David White in Madrid and Kerin Hope in Athens

## Honda to build new minivan in Ontario

By Bernard Simon in Toronto

Honda, the Japanese carmaker, plans to expand its assembly plant at Alliston, Ontario, for production of a new minivan for the North American market.

A decisive factor in the choice of the Ontario plant, located 80 km north of Toronto, has been Canada's willingness to eliminate customs duties on imports of automotive parts when an existing duty drawback programme ends on December 31.

Honda and the Canadian government were due to announce their decisions late yesterday.

Honda is expected to spend close to \$340m (US\$281m) on the expansion, which will boost production by at least 50,000 vehicles a year.

The plant at present produces about 100,000 Honda Civic cars a year, of which 90 per cent are exported to the US.

Honda currently sells a Japanese-built minivan, known as the Odyssey, in North America.

The new model is expected to be bigger than the Odyssey, pitting it directly against minivans produced by GM, Ford and Chrysler, the big three North American carmakers.

Under local-content provisions of the North American free trade agreement, Canada is barred from extending the duty drawback beyond the end of this year.

The programme provides for carmakers to claim a refund of duties on imported parts which are used in vehicles made in Canada, and then exported to the US.

The duties, if they applied, would add about \$250 to the manufacturer's price of each vehicle.

However, Ottawa is understood to have turned down Honda's request for concessions to replace duty "remissions" which also run out at the end of the year.

Under the remission programme, a carmaker can cut the dutiable value of imported vehicles in proportion to parts exported from Canada to the company's overseas assembly plants.

The big three North American carmakers lobbied against any reduction in the vehicle tariff, presently 9.2 per cent. Ottawa was also concerned that any concessions to Japanese companies would have to be extended to European carmakers.

Technipetrol of Italy and Technip of France are the lead contractors for the building of Egypt's first privately-owned refinery in Egypt; Spain's Tecnicas Reunidas is a big sub-contractor.

The 100,000 b/d refinery will produce mainly

## WORLD TRADE NEWS DIGEST

# Successor to Cocom agreed

The successor to Cocom, the cold war-era export-monitoring organisation, is to be formally inaugurated in April in Vienna, the site of the new body's secretariat.

Negotiators from 28 countries, including former cold war adversaries such as Russia and the US, reached agreement on principles and the location of the secretariat yesterday in Wassenaar, the diplomatic suburb of The Hague, after two days of talks.

The new body, to be called the Wassenaar Arrangement, will be aimed against countries deemed a threat to their neighbours or regions. Diplomats said this meant Iraq, Iran, North Korea and Libya. By contrast, Paris-based Cocom, the Co-ordinating Committee for Multilateral Export Controls, was designed to stop the flow of arms to the Soviet bloc and other Communist countries.

The body will have two pillars, one for conventional arms and the other for dual-use goods and technologies that could serve a military as well as a civilian purpose. The 28 countries will exchange information about their foreign sales of certain arms and dual-use exports.

Ronald van de Krol, The Hague

**French deadline in telecom row**

France Telecom Mobile International, the mobile telephone arm of the French state-owned telecom group, has given the Polish government until December 31 to resolve a dispute over a promised GSM digital operators licence. The threat comes days after Ameritech International of the US, FTMI's partner in a mobile phone venture in Poland, confirmed it had set in train arbitration proceedings against Warsaw.

Both companies accuse the Polish authorities of renegeing on a promise to award their joint venture, Centerel, a GSM digital mobile telephone operating licence. FTMI and Ameritech paid \$75m for the licence in 1991, when the pledge was made. The venture also includes TP, the Polish state telecom company.

Christopher Bobinski, Warsaw

## Philips to axe S Africa plant

Philips, the consumer electronics group, has become the latest casualty of South Africa's moves to reduce protective tariffs on television sets in line with the General Agreement on Tariffs and Trade. The group is to close its television assembly plant in Johannesburg in early 1996.

On October 1, the Board of Tariffs and Trade reduced the duty on television imports from 60 per cent to 40 per cent. This would be brought into line with the Gatt level of 25 per cent within two years.

The South African television market is growing at 15-20 per cent annually, with estimated sales of 450,000 this year. But there is about 100 per cent overcapacity and increasing illegal imports.

Mark Ashurst, Johannesburg

## Iveco steps up Chinese link

Iveco, the commercial vehicle subsidiary of Fiat of Italy, is to step up its collaboration with Nanjing Auto Work, the Chinese van manufacturer, investing \$200m in a new joint venture.

The new company aims to produce 60,000 light Iveco Daily vans and 75,000 diesel engines at Nanjing by 1998, with 100 per cent local content.

The two companies have been working together for nine years through an agreement on technology sharing and technical assistance. Each company will have a half-share in the joint venture.

Michelin, the French tyre maker, yesterday said it was setting up its first factory in China. Under an agreement with the town of Shen Yang, north-east China, the French group will take a 90 per cent stake in a new tyre company. Total Michelin investment is \$30m.

John Riddick, Paris

## Refinery deal for Europe group

A European consortium has won the contract to build a \$1bn joint-venture Israeli-Egyptian oil refinery in Alexandria, Egypt. In addition, the Middle East Oil Refineries, which is the largest Arab-Israeli joint venture, announced yesterday that the European Investment Bank has finalised a \$300m loan for the project.

Techimperol of Italy and Technip of France are the lead contractors for the building of Egypt's first privately-owned refinery in Egypt; Spain's Tecnicas Reunidas is a big sub-contractor.

The 100,000 b/d refinery will produce mainly "environmentally friendly" fuels to be marketed to Israel, Egypt and the eastern Mediterranean. The plant should begin operations by 1999.

Mark Dennis, Jerusalem

## INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

|      | UNITED STATES         |                      |                               |                              | JAPAN                 |                      |                               |                              | GERMANY               |                      |                               |                              |      |
|------|-----------------------|----------------------|-------------------------------|------------------------------|-----------------------|----------------------|-------------------------------|------------------------------|-----------------------|----------------------|-------------------------------|------------------------------|------|
|      | Narrow Money<br>(M\$) | Broad Money<br>(M\$) | Short Inter-<br>est Rate<br>% | Long Inter-<br>est Rate<br>% | Narrow Money<br>(M\$) | Broad Money<br>(M\$) | Short Inter-<br>est Rate<br>% | Long Inter-<br>est Rate<br>% | Narrow Money<br>(M\$) | Broad Money<br>(M\$) | Short Inter-<br>est Rate<br>% | Long Inter-<br>est Rate<br>% |      |
| 1986 | 13.5                  | 8.3                  | 6.49                          | 7.67                         | 3.43                  | 6.9                  | 5.2                           | 5.65                         | 0.84                  | 10.0                 | 8.7                           | 4.54                         | 6.90 |
| 1987 | 11.6                  | 6.6                  | 6.82                          | 8.38                         | 3.12                  | 10.5                 | 4.15                          | 4.81                         | 0.56                  | 9.0                  | 7.5                           | 4.03                         | 6.21 |
| 1988 | 4.2                   | 5.2                  | 7.65                          | 8.64                         | 3.61                  | 8.4                  | 4.04                          | 4.43                         | 0.54                  | 9.7                  | 6.4                           | 4.24                         | 6.26 |
| 1989 | 1.0                   | 4.0                  | 8.99                          | 8.50                         | 3.43                  | 4.1                  | 10.6                          | 5.31                         | 5.16                  | 0.48                 | 6.3                           | 5.7                          | 7.12 |
| 1990 | 3.6                   | 5.3                  | 8.05                          | 8.55                         | 3.60                  | 2.6                  | 8.5                           | 7.62                         | 0.65                  | 4.5                  | 4.5                           | 8.49                         | 8.66 |
| 1991 | 5.1                   | 3.2                  | 8.87                          | 7.85                         | 3.21                  | 5.2                  | 2.4                           | 7.21                         | 0.75                  | 5.1                  | 5.6                           | 9.25                         | 8.42 |
| 1992 | 12.4                  |                      |                               |                              |                       |                      |                               |                              |                       |                      |                               |                              |      |

# Seoul MPs in move against ex-presidents

By John Burton in Seoul

The South Korean parliament yesterday agreed legislation that would allow the prosecution of two former presidents for their leading roles in a 1978 military coup and the subsequent massacre of pro-democracy protesters.

Ex-presidents Chun Doo-hwan and Roh Tae-woo could be tried on sedition charges, which carry a possible death sentence. But even some of their harshest political critics suggest they should receive a presidential pardon if convicted.

The legislation reflects an effort by President Kim Young-sam, the country's first civilian leader in three decades, to break ties with the previous military governments and purge their supporters.

The new law would suspend the 15-year statute of limitations that would have prevented the former presidents from being prosecuted on charges concerning the military massacre of at least 200 demonstrators in the southwestern city of Kwangju in 1980.

The statute of limitations was considered invalid since Presidents Chun and Roh ruled

Korea between 1980 and 1988, effectively blocking any examination of the case.

Mr Chun was arrested earlier this month for his leadership of the 1978 army coup, which carries no statute of limitations since it is considered a treasonous act.

The former president, 63, is now in the 17th day of a hunger strike in protest at his arrest and may be soon moved to a hospital as his health deteriorates. Drinking only water, he can scarcely walk and is confined to his prison cell bed.

Mr Roh was arrested a month ago on unrelated corruption charges and went on trial on Monday for alleged bribery.

The legislation, backed by all of the country's political parties except the conservative United Liberal Democratic party, would strip soldiers involved in the Kwangju massacre of military medals and citations for their actions. The soldiers were decorated for suppressing a "communist insurrection".

The government will also push for official memorials to commemorate the event and allow those convicted for opposing the military to have their records cleared in special court appeals.

**Representative office is the first requirement for foreign banks**

## Burma to allow joint ventures in banking

By Chit Tun in Rangoon and Ted Bardacke in Bangkok

The Burmese government is to allow foreign banks which have opened representative offices to set up joint ventures with private Burmese banks.

Foreign banks must provide at least 35 per cent of the equity capital in the joint venture banks but there is no upper limit on foreign participation and the exact ratio would be subject to negotiation between foreign and local partners, Brig Gen Win Tin, the finance minister, said in a speech carried by the official media yesterday.

The move, which one foreign banker said had been under consideration for at least a year, is the second important financial reform Burma has put in place since an International Monetary Fund team set up a technical monitoring programme for Burma. Under it, the government would have to implement a set of recommendations in order to be eligible to apply for renewed funding.

The finance minister said that foreign banks must first open a representative office in Rangoon, the capital, in order to form a joint venture with a Burmese private bank.

Twenty-two foreign banks, including Banque Indosuez, Bank of Commerce Malaysia, Banque Nationale de Paris, Hongkong and Shanghai Banking Corporation, and Standard Chartered Bank, already have

representative offices in Rangoon. Nine more foreign banks have been issued licences to open such offices.

Since Burma's first round of financial reforms in 1992, 15 private Burmese banks have been established, 13 in Rangoon and one each in Mandalay and Taunggyi, capital of the Shan state. All these banks are available for joint ventures with foreign banks, the finance minister said.

The joint-venture banks will be allowed to take deposits in local and foreign currencies but any overseas transfers will still have to be done through the government-owned Foreign Trade Bank.

The minister said the joint venture banks will continue to exist even after existing representative offices of foreign banks have been allowed to convert into branches.

No time frame for such a conversion was given but Mr Kyi Aye, the central bank governor, said in interview earlier this year that the government wanted to give local banks "a number of years to develop" before allowing wholly-owned foreign banks to compete on equal footing.

Earlier this month the government allowed private companies and citizens legally to exchange the local currency, the kyat, at the market rate of about 125 to the US dollar as opposed to the official rate of 6 kyat to the US dollar.

The government still maintains strict controls over capital outflows.

## Japan to liquidate 7 housing loan groups

By Our Foreign Staff and Agencies in Tokyo

The Japanese cabinet last night endorsed a scheme to liquidate seven troubled housing loan companies, in a move which will involve the unpopular use of at least Y650bn (£45bn) in public funds.

The scheme was crafted as a compromise aimed at reconciling two warring creditor groups - the big banks which founded the mortgage lenders, and the agricultural co-operatives which are the biggest creditors of

the debt-laden institutions.

The government has been anxious to secure a consensus, and Mr Masayoshi Takemura, finance minister, said the decision "was struck as a result of agonising talks among the concerned parties". Previous proposals to resolve the problem have foundered amid arguments over how much of the burden each should share.

Officials said a vehicle would be created to take over the debts and loans of the seven housing lenders, liquidation of which is expected to cause losses reaching some Y645bn.

Mr Takemura acknowledged this figure may swell. "In that case, some fiscal steps would become necessary," he said, implying a possible further dip into government coffers.

Under the plan agreed last night, the founding banks would give up all their claims to the seven mortgage lenders, totalling Y3,500bn. Other creditor banks will be asked to absorb Y1,700bn in claims. Both these groups would put up capital and low-interest loans for the new vehicle.

The farm co-ops will have to give Y530bn to the new entity, the officials

added. Mr Naozumi Kunitomo of Kleinwort Benson in Tokyo said: "Agricultural co-operatives with a lot of lobbying power were favoured and financially strong banks made to bear more of the burden."

The contributions leave Y635bn to be found by the government from its general account funds under the 1996 budget, due to be finalised today. Japanese public opinion has become increasingly hostile to the use of public money to bail out financial institutions which have become over-stretched, following often imprudent

lending in the "bubble" years of the late 1980s.

Anticipating this, Mr Takemura said he felt obliged to offer an apology. "I feel sorry for the latest decision to use the Japanese people's money," he said ahead of the late-night cabinet meeting.

At a midnight press conference, Mr Tomiochi Murayama, the prime minister, pledged that to gain public acceptance of the scheme, his government would thoroughly investigate how the housing lenders got into the trouble in the first place.

### ASIA-PACIFIC NEWS DIGEST

## Cambodia sends prince into exile

The Cambodian government is close to ending a messy and embarrassing political and family affair, as Prince Norodom Sivivuth, secretary-general of one of the country's two ruling parties, was released yesterday into the custody of his half-brother King Norodom Sihanouk in preparation for being sent into exile.

Prince Sivivuth is expected to leave for France by the end of the year. He was jailed last month for allegedly plotting to murder Mr Hun Sen, who as co-prime minister shares power with Prince Sivivuth's nephew, Prince Norodom Ranariddh, leader of the royalist Funcinpec party. Prince Sivivuth, an elected MP and former foreign minister, is the number two official in Funcinpec.

He will become the second member of the Cambodian royal family to be exiled recently; Prince Norodom Chea Srapong was sent packing in 1994 after a failed coup attempt.

The prince's case was generating more bad publicity for a government recently battered internationally by reports of its human rights violations and political intolerance. Nearly half of the Cambodian government budget comes from foreign aid and some donors have been privately warning that further aid could be in jeopardy if the situation in Cambodia continues to deteriorate.

Ted Bardacke, Bangkok

### Japan outlines jobs policy

The Japanese government yesterday warned that structural changes were harming the country's labour market and it adopted a new medium-term programme aimed at forestalling an expected rise in the nation's level of unemployment. The programme, which covers the period to the end of fiscal 2000, recognises the significant structural changes in Japan's labour market and calls for wide-ranging measures to soften their negative impact.

Japan's unemployment rate, which hit a record 3.2 per cent in October, is forecast to rise to 3.75 per cent if the deregulation and structural adjustment measures adopted by the government fail to produce results. The government warns that the continuing shift of manufacturing overseas and greater corporate efficiency arising from the spread of information technology could increase unemployment, particularly among older workers. The programme calls for measures to create jobs in emerging industries, facilitate labour mobility and support individual efforts among workers to develop job skills.

Michio Nakamoto, Tokyo

### Foreign banks assailed in Hanoi

Vietnam's central bank, the State Bank, yesterday criticised an unspecified number of foreign banks based in the country for allegedly violating foreign exchange rules and maintaining bad loans. In an annual address to the foreign banking community in Hanoi, a State Bank official claimed some banks had "committed inaccurate and false reports" and that "misaccounting" had blocked supervision of the banks by the State Bank.

He singled out two joint venture banks and a foreign bank branch for allegedly having bad loans on their books, adding that this showed "the fact that to some extent the consideration of loan applications was not careful enough".

Vietnam has licensed 19 foreign bank branches and 67 representative offices since it opened up the sector to foreigners in 1992.

Jeremy Grant, London

### China clamps down on reporter

Beijing has stripped a German journalist of his right to work in China in a gesture of de facto expulsion that German diplomats said yesterday was a reprisal for his unfavourable portrayal of Premier Li Peng. Officials told Mr Henrik Bork of the Frankfurter Rundschau his work permit and visa would not be renewed after expiry on December 27 and alleged that his reporting was "aggressive, biased and attacked people and personalities". Mr Bork, 34, based in China since January 1992, had been warned formally after labelling Mr Li a "dictator" in a story published on the eve of Mr Li's visit to Germany in July 1994, Germany's Beijing embassy said.

Mr Bork's long career in Hong Kong public life has brought him into contact with many civil servants. He is particularly close to Mr Michael Suen, secretary for home affairs, and the man thought most likely to succeed Mrs Chan. Observers believe that a Lo/Suen administration would be hard, but effective.

■ Japan's main money supply measure grew 3.5 per cent in the year to November, the fastest for five months. The Bank of Japan's preliminary estimate of growth in M2 plus certificates of deposit for last month was a marked upturn from a revised 2.7 per cent growth in October.

William Dawkins, Tokyo

■ A controversial privatisation Bill was passed in the Sri Lankan parliament yesterday by a majority of 104 votes. One government MP joined the main opposition United National party in abstaining in the vote on the Public Enterprises Reform Commission Bill.

Kyodo, Colombo

## ENTECH

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Mr Steve Spratt,  
Johnson Controls, Speke JIT Team



## NEWS: INTERNATIONAL

# OECD sees tiny cut in unemployment

Growth this year has been weaker than expected. Gillian Tett on the group's latest half-early report

**OECD** Although world growth is forecast to pick up next year, this will have only a slight impact on jobless rates, the Organisation for Economic and Co-operation and Development said yesterday.

Unemployment is even forecast to rise slightly in Japan and the US next year and remain flat in Germany, according to the OECD's forecast.

This warning came as the OECD, which acts as a think tank for 26 of the world's industrialised nations, issued its latest half-yearly outlook.

The Paris-based group denies that there is any danger of a world recession, though the possibility has been discussed by private sector economists.

In spite of the recent dip in growth in many countries, the OECD insists fundamentals remain relatively strong. It expects to see growth pick up in most parts of the world next year, amid a healthy climate of low inflation. But it admitted that growth this year had been weaker than it had expected.

Consequently it reduced a range of its forecasts, both for this year and next. In the case of Germany, it admitted that its own forecasts made even as recently as November were too optimistic.

The 1995 growth projection for Japan, for example, has been reduced to 0.3 per cent.

down from the OECD's original estimate of 1.3 per cent made in November last year.

The Japanese economy is expected to pick up next year, partly as a result of the recent monetary loosening and stabilisation of the yen - although the growth rate is expected to be a fairly modest 2 per cent.

The group denies there is any danger of a world recession, though the possibility has been discussed by private sector economists

and the organisation admits that this could still be derailed if the yen strengthens again.

Conversely, if the yen falls to Y115 per dollar, compared to the current expected rate of Y103.7, growth could be 2.8 per cent next year.

These hints of a slightly weaker picture in Asia have also affected the regional "tigers": growth in the dynamic Asian economies is now projected to fall from this year's rate of 7.8 per cent expansion to 7 per cent in 1996 and 6.4 per cent in 1997.

With imports in the US expected to slow, world trade is also projected to expand less

rapidly next year: after growing by 10.4 per cent this year, the trade of manufactured goods is expected to grow by 8.5 per cent next.

This slower pace may affect European trade patterns, with net exports not expected to make any contribution next year.

However, the steady price

Despite the recent dip in growth in many countries, the OECD expects growth to pick up in most parts of the world next year

growth might help sentiment. Inflation is projected to remain relatively low in most regions of the world.

Even China is expected to see some easing of price growth next year, even though overall growth in gross domestic product is expected to be slightly stronger.

But slower growth may make it even harder for some countries to address one of the OECD's longest-standing pleas - the need for governments to reduce the budget deficits. Japan, for example, is singled out as one place where urgent need of action.

See Editorial Comment

ment in confidence is now crucial.

This confidence is unlikely to be boosted by the labour markets: the OECD projects that overall unemployment will only decline from 7.8 per cent this year to 7.7 per cent next across the OECD region.

However,

the steady price

inflation

GDP deflator, change from previous period

Unemployment

% of labour force

Impact on government financial balance by 1997

Ans. of GDP

GDP GROWTH

GDP HIGHER

GDP LOWER

GDP STATIONARY

GDP UNKNOWN

awarded  
estment  
itingKuwait's ability to respond  
on two main factors.  
The first is the actual  
value by more than 50 per  
cent of proven oil reserves  
which total more than 95 per  
cent of the world total.The second is the poli-  
cy of the oil minister  
which is to stand firm  
before the oil price is re-  
duced to \$20 a barrel.However, BCA says it  
remains strong enough  
to allow Kuwait to continue  
with a mixture of induc-  
ments and threats aimed at  
MPs with fishing constituencies.Immediately after the  
defeat, Mr Douglas Hogg, the  
agriculture and fisheries minister,  
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as tempers flared among Tory  
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minister not to rule out start-  
ing the membership of a single  
European currency for the life-  
time of the next parliament.

Last night's was the first

BCA estimates that the  
cost should shrink to  
one-third the year after.BCA estimates that the  
adjusted cost of the  
privatisation programme  
should shrink to

## Tories defeated on EU fish policy

The fragile unity in the governing Conservative party over European Union policy was shattered last night when the government lost a vote on the Common Fisheries Policy of the European Union, our Westminster staff writes.

The government lost by two votes on a "take note" motion which has no direct impact on policy. But it is nonetheless highly embarrassing for ministers following their attempts to win with a mixture of induc-

ments and threats aimed at MP's with fishing constituencies. Immediately after the defeat, Mr Douglas Hogg, the agriculture and fisheries minister, faced Labour peers when he announced that the government would give "the weight" to the vote of the EU fisheries council meeting tomorrow.

The Commons defeat came as tempers flared among Tory

Euro-sceptic MPs over the

recent decision by the prime minister not to rule out starting the membership of a single European currency for the life-time of the next parliament.

Last night's was the first

government defeat since Mr John Major put himself up for re-election as party leader last June in an attempt to end the Tories' civil war over EU policy.

His government was dogged for the first part of the year by infighting over the EU, but it hoped that with a general election meeting a truce had occurred. The last possible date for an election is June 1997.

The government received a further blow yesterday when Mr David Ashby, a Tory MP, lost his libel case against a newspaper over an article suggesting he is homosexual and a

bar. There were strong indications yesterday that Mr Ashby, the MP for North West Leicestershire, is unable to meet the full costs of the case, estimated at \$500,000 (£377,000).

MPs are disqualified from sitting in the House of Commons if they are declared bankrupt. But the government can still afford a by-election at the moment and risk its technical majority falling to one.

Mr Tony Baldry, fisheries minister, spent yesterday in private talks with Tory MPs from fishing constituencies and came up with a range of financial sweeteners. He pro-

mised to restore the £2m-a-year

National Harbour Grant scheme, and to rebalance a separate scheme to promote fish marketing and processing, also worth £2m annually. Both schemes were axed in last month's Budget.

Mr Baldry also announced that the Spanish government had agreed to pay £10m in compensation for damage caused to Cornish drift nets during the so-called "tuna wars" of summer 1994.

But in the Commons, Euro-sceptic MPs demanded Britain's withdrawal from the Common Fisheries Policy.

Railway privatisation Labour party says buyer of SW Trains is 'ruthlessly anti-competitive'

## First franchise is won by biggest bus company

By Charles Batchelor,  
Transport Correspondent  
and George Parker

The government's rail privatisation programme took an important step forward yesterday with the sale of the first three passenger train franchises.

But Mr Roger Salmon, franchising director, said that rail, unlike bus, was tightly regulated.

Mr Brian Souter, Stagecoach chairman, said that while the company had been criticised for its behaviour towards competitors there had never been complaints about its treatment of customers.

Mr George Young, transport secretary, described the South West Trains sale as "the most important announcement for passengers since privatisation started two to three years ago". He added: "It will not be long before franchising is seen

as particularly ironic that the first franchise [is] going to a ruthlessly anti-competitive company." Stagecoach's bus operations have been the subject of more than 20 competition investigations.

But Mr Roger Salmon, franchising director, said that rail, unlike bus, was tightly regulated.

Mr Brian Souter, Stagecoach chairman, said that while the company had been criticised for its behaviour towards competitors there had never been complaints about its treatment of customers.

Mr George Young, transport secretary, described the South



Stagecoach chairman Brian Souter (left) accepts the first rail franchise to be sold under the government's privatisation programme from Roger Salmon, director of franchising

as a success."

A delegation of seven Conservative MPs who met Mr George yesterday said they were greatly reassured by the promise of improvements to services from the first franchise.

Stagecoach is expected to take over SWT's operations early next year. It will acquire

a company operating suburban and long-distance services to 200 stations in south west London and southern England.

It promised to maintain present service levels and to improve station security and passenger information. It also plans to introduce bus services linking with its trains.

Under its present manage-

ment, which put in an unsuccessful bid to acquire the franchise, SWT made a pre-tax loss of \$300,000 on turnover of £245m in the year ended March 1995. But Mr Keith Cochrane, Stagecoach financial controller, said SWT would make an increasing contribution to Stagecoach profits over the next few years.

Mr Cochrane said: "We are looking to increase volumes and you don't do that if you like your fares." He added: "It will not be long before franchising is seen

as a success."

## Fear of higher fares unfounded, says director

By Our Transport Correspondent

Stagecoach has no plans to reduce services or to bump up fares on the 53 per cent of ticket sales which are not covered by price controls, said Mr Brian Cox, the company's director in charge of rail operations. "We are looking to increase volumes and you don't do that if you like your fares," he explained.

The company's acquisition means that it will handle most trains which leave Waterloo

station in London and will run trains on the busy main line to the south coast port of Southampton as well as to the south-western cities of Salisbury and Exeter. It will also run several busy London commuter lines to places such as Hampton Court and Windsor.

Mr Richard Hammett, transport analyst at IBS, Stagecoach's rival, forecast a 1 per cent annual increase in passenger numbers over the next few years and a 2 per cent annual increase in average passenger fares.

Stagecoach has a three-part

programme to boost passenger numbers. It plans to spend \$3m (£4.6m) over the next four years on improving security at stations, in addition to the current annual \$2.5m spend on station maintenance. This will involve improved lighting and the use of closed-circuit TV cameras.

There are no plans to increase the numbers of staff at stations - overall staff numbers are expected to fall - but Stagecoach will be concentrating on improving facilities at stations in the London suburbs,

where conditions have deteriorated in recent years.

It also intends to improve the quality of information available to passengers. A common complaint in the early stages of privatisation was that rail companies were refusing to tell passengers about competing services. Mr Cox said the company would provide timetable information on its own and competing train and bus services at all stations.

Stagecoach has set itself higher Passenger Charter targets covering punctuality and

reliability. It has set itself a target of 92 per cent of suburban trains and 89 per cent of mainline services arriving on time or within five minutes - both increases of 2 percentage points. Reliability targets will also be increased by 1 per cent to 99 per cent.

While it is true that Stagecoach has no experience of running train services, the core skills it will transfer from its bus operations are in the scheduling of services and fare collection, said Mr Brian Souter, the company's chairman.

## Minister chides regulator for accepting GTech flight



Opposition parties expressed dismay last night at the government's decision to retain Mr Peter Davis as regulator of the national lottery. John Kampfner and Raymond

Shadwell write: Mr Davis survived even though he ignored advice not to accept free flights from GTech, the US company which is a member of the Camelot consortium which operates the UK lottery.

Mr Virginia Bottomley, minister responsible for the lottery, said she made clear during a meeting with Mr Davis yesterday that his acceptance of flights from GTech had not been wise. She said his close contacts with Camelot, which

were inevitable for the job of director-general of the office of lottery regulation (Ofot), made it all the more important that Mr Davis should maintain a proper distance "and be seen to do so, taking all steps to guard against any possible misdeeds standing on your actions".

Mrs Bottomley said there never had been any doubt about Mr Davis's integrity. Senior officials described yesterday's 30-minute meeting as cordial. "She was not censorious and she wanted him to know that in her view he had displayed a certain lack of wisdom," an official said.

In a public letter to Mr Davis, Mrs Bottomley made clear she had sought and obtained assurances that if any conflict of interest arose, which could lead to a potential conflict of interest, "you will seek guidance from my department and inform it of the decision you take as how to proceed".

Officials said Mrs Bottomley was working from the assumption that Mr Davis had revealed all that there was to reveal, and that she would reconsider if any more information came to light.

Labour MP Mr Alan Wilkins said Mrs Bottomley should have made a full statement to the House of Commons instead of "putting this out publicly on the eve of the parliamentary recess". He added: "She's treated the Commons with the same arrogance and contempt with which the regulator has treated her department."

Mr Davis is paid \$24,000 a year and is on a five-year renewable contract which started in October 1993.

## Lawyer faces jail for stealing \$7.7m

By John Mason,  
Law Courts Correspondent

A lawyer who stole \$25,000 (£17,000) from his clients, left his partners ruined and the Law Society picking up the largest compensation bill in its history, now faces a jail sentence of up to seven years.

Labour MP Mr Alan Wilkins said Mrs Bottomley should have made a full statement to the House of Commons instead of "putting this out publicly on the eve of the parliamentary recess". He added: "She's treated the Commons with the same arrogance and contempt with which the regulator has treated her department."

Yesterday, a fellow partner with the law firm, Mr William Bew, was convicted at Maidstone Crown Court on four counts of furnishing false information over the probate accounts. Both men will be sentenced tomorrow.

Mr Ford admitted stealing \$25m from over 1,000 clients by billing them excessive amounts, the court was told.

Bills charged amounted to an average of 90 per cent of the value of the estate. In some cases, he billed them for more than the estate was worth. The average solicitor's charge for such cases is about 15 per cent of the value of the estate.

Mr Ford admitted the theft of \$25m of clients' money. However, the total amount paid out by the Law Society's compensation fund was \$27m - the largest sum ever met by the solicitors' self-regulatory body.

The theft has angered solicitors throughout the UK who now face increased professional indemnity insurance premiums. The Law Society has compensated the immediate victims of Mr Ford's thefts.

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## Johnson Matthey speeds up transformation

Tim Burt on the diversified group's plans for expanding its electronic materials arm

Johnson Matthey has drawn up plans to accelerate its transformation from a precious metals and engineering technology group by spending up to \$200m on its fast-growing electronic materials arm.

The company, which is best known as the world's largest gold refiner and a pioneer of catalytic converters, has authorised the five-year investment as part of its drive to develop its presence in the computer components market.

Further expansion of its semiconductor operations follows the \$16m acquisition in September of Advanced Circuits Inc (ACI), the US manufacturer of semiconductor components and multi-layered printed circuit boards.

Mr Chris Clark, managing director of the group's materials technology division, said the move would exploit the growing demand for microprocessor components.

"We need to get away from our dependence on precious metals and we're sure that, going forward, Johnson Matthey will be dominated by electronic materials."

According to the company's estimates, the value of its computer components could grow from an estimated \$3.05 per microprocessing package to \$6 per package by 2001.

The market for such units, it claims,

is also set to grow from about \$170m to almost \$250m by the turn of the century.

Most of that growth will be centred on ACI and its recently acquired subsidiary, Acist, which makes advanced printed circuit boards.

Some analysts, however, have questioned the ACI acquisition, suggesting that competition would move rapidly to squeeze its market share and copy its technology.

Mr David Davies, chairman and chief executive, plays down those concerns and claims ACI has two advantages over rivals. First, it is not Japanese and can therefore rely on some preferential treatment from US manufacturers such as Intel. Second, the Acist subsidiary enjoys relatively high barriers to entry in making plastic laminate packages for semiconductor chips.

Even so, the benefits of the acquisition will take time to feed through, while falling contributions from the catalytic systems division has persuaded some analysts to reduce profit forecasts for this year from about \$110m to

nearly \$100m. Gearing, meanwhile, could increase next year to about 40 per cent as the group builds up its investment in ACI.

Mr Davies justifies the investment - put at \$60m a year - saying that electronic materials promises to be the fastest growing part of Johnson Matthey in the coming years.

"We felt we had to widen our base in this area, and I think Acist could prove to be a pearl."

The group, which says it remains committed to precious metals and catalytic systems, is seeking a 20 per cent return on net assets from its latest subsidiary within two years.

In the meantime, it is also looking for sustained profits growth from Cookson Matthey Ceramics, its colour printing and tiling joint venture with Cookson Group.

"Johnson Matthey must concentrate on high value added and high technology businesses - we realise that electronic materials and the Cookson venture will be the most exciting parts of the company for some time to come."

## Closer scrutiny of farm cash urged

By Alison Maitland  
in London

Britain's government is urging closer scrutiny of agricultural fraud in the European Union.

The National Audit Office says today that the UK reported £2.7m (£13.3m) in overpayments due to fraud or error on Common Agricultural Policy support schemes last year, up from \$4.5m in 1992.

Most of these schemes are administered by the government's Agricultural Executive Agency.

The NAO says the board complies with European Commission requirements in implementing the subsidy schemes and takes appropriate action to recover overpayments. Schemes include export refunds on commodities such as beef and milk, purchase and storage of surpluses and payments to farmers to produce certain crops.

But the NAO says the board should consider giving greater publicity to its control and anti-fraud activity "to demonstrate further the seriousness with which it treats irregularity and to act as a deterrent".

Mounting evidence of fraud in the EU, especially relating to the CAP, has fuelled calls by the UK government and consumer organisations for further reform of agricultural policy.

Between 1991 and 1993, only 23 of 367 suspected fraud cases were identified by external sources such as traders or the public.

The NAO notes approvingly that the Intervention Board introduced a free anti-fraud telephone service in November last year which had received 263 calls by the end of September.

It recommends that the board identify recurring errors so as to target schemes or traders prone to misaccounting or fraud. Identification could be aided by collecting information on the value and causes of errors uncovered during the board's clerical checks of traders' claims for payment.

Seven schemes, four relating to the dairy sector, accounted for 96 per cent of potential overpayments identified by checks on premises in 1992.

The NAO notes approvingly that on some schemes suggests that verification activity should be targeted on them."

## BUSINESS AND THE ENVIRONMENT

## Sowing seed by satellite

Farmers could save 15 to 20 per cent in production costs by more accurately targeting applications of seeds and herbicides, according to the results of trials using yield mapping technology by Massey Ferguson, the UK-based agricultural equipment supplier.

The company's equipment, which uses space satellites to track tractors in the field, has been tested at Shuttleworth College Farms in Bedfordshire since 1992.

Brian Welti, farm manager, explains that once maps have been produced showing the most fertile parts of the land, applications of seeds, fertilisers and herbicides can be targeted more accurately.

Tractors are fitted with global positioning equipment which picks up satellite signals. The signals, combined with data about crop yields, allow navigational satellites to indicate the more productive areas of a field, and seed applications are adjusted automatically.

Initial results from this year's harvest show that seed costs in the trial fields were cut by £22 per hectare and herbicide costs by £10 per hectare. The same savings repeated over the whole 240ha arable sector of the farm would have produced total savings of around £14,000.

The yield mapping equipment draws up a map showing which parts of the field produce the most grain - this can be affected, for instance, by changing soil types. Welti stresses that maps must be produced over several years to iron out aberrations before farmers can change their applications of seeds.

Britain is at the forefront of yield mapping technology, but trials are in the very early stages. The Danish Agricultural Advisory Centre is also conducting tests on similar precision farming methods. Trials on four farms have shown improvements in cereal growing profitability of between 220 and £40 per hectare.

Deborah Hargreaves

Ian Pedder is sanguine about the failure of a £250m investment to make a return.

As chief executive of Tioxide, the world's second-largest producer of titanium dioxide, he has overseen its investment on environmental compliance since 1990. Titanium dioxide, the main ingredient in white pigment, is used in a range of industrial and consumer products.

Tioxide, a subsidiary of Imperial Chemical Industries, has spent the money reducing emissions from its plants and neutralising waste. "The capital that has been spent will never be recovered," says Pedder. "That is a cost to industry, and in the long run it will be reflected in the cost of the pigment."

SCM Chemicals, the US-based Hanson subsidiary and the world's third-largest titanium dioxide producer, estimates its environmental spending at more than \$100m (£55m) in the past 20 years, while Rhône-Poulenc of France, the fourth largest producer in Europe, has invested FF1600m (£73m) since 1990. The companies also incur annual operating costs to run neutralisation and recycling plants.

They are now trying to offset these costs by selling by-products made from their waste. The companies say they are turning a liability into an opportunity, and extending the lifespan of landfills where the waste would otherwise be dumped.

"Basically we are trying to reduce the amount of material we dump into landfills and increase the amount we sell as useful products," says Pedder. "We are trying to reduce the cost of being environmentally good."

Many TiO<sub>2</sub> producers have been neutralising waste and selling by-products for as long as 20 years, in an attempt to preserve landfills and anticipate environmental regulation.

But early in the decade, a raft of legislation forced all manufacturers to reduce the environmental impact of their waste. Chemical companies were suddenly required to treat their waste, recycle it and reduce factory emissions by as much as 75 per cent.

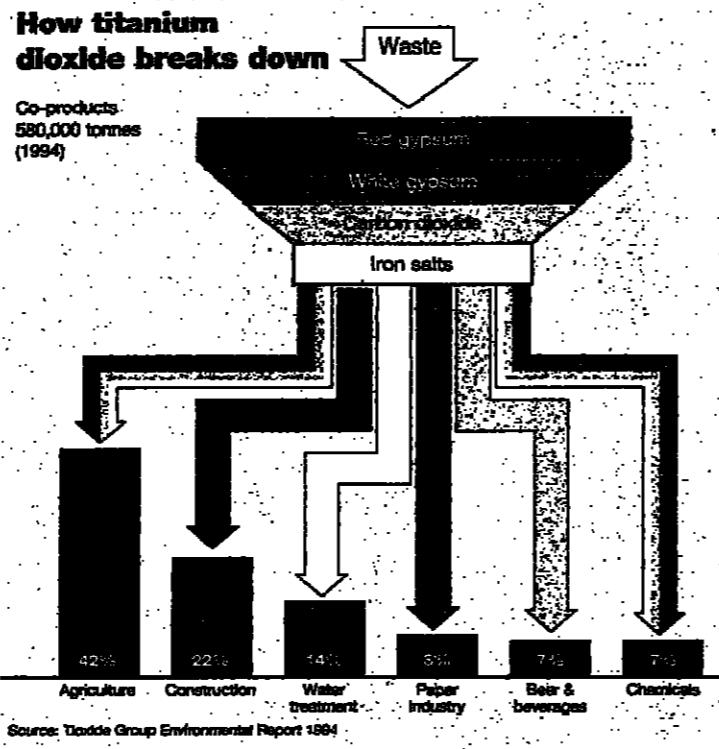
Dealing with the waste is a heavy task: last year the industry produced 3.78m tonnes of TiO<sub>2</sub>. Depending on the manufacturing process, between 0.5 tonnes and 12 tonnes of waste are generated for every tonne of TiO<sub>2</sub> produced.

Titanium dioxide is produced in two ways. The sulphate process involves the reaction of sulphuric acid with raw materials containing titanium. In the chloride process, chlorine and coke react with the raw materials and the resulting substance reacts with oxygen to create the final product.

The sulphate process, which accounts for about half the world's

## Cash from compliance

Titanium dioxide makers have found ways to turn a liability into an opportunity, writes Motoko Rich



production of titanium dioxide, produces iron sulphates and sulphuric acid as waste. The iron sulphates can be used in coloured pigments, fertiliser and water treatment. When the sulphuric acid is neutralised, it produces gypsum, which can be used in building materials, and carbon dioxide, which can be used mainly in water treatment.

Most of the by-products are of low value, making it uneconomic for companies to transport them. "Most of our products are restricted to markets within 100km of our factories," says Rob Louw, managing

"This is simply the cost of doing business in today's society. Either you comply with environmental laws or you are out of business"

by the soft-drink industry.

SCM Chemicals has shifted most of its production to the chloride process because it produces less waste. Now 83 per cent of its capacity is manufactured in this way.

Most of the chloride used in manufacturing is recycled. The remaining waste is either ferric or ferrous

chloride - iron salts - and hydrochloric acid. The iron salts are used mainly in water treatment.

However, the business is developing more sophisticated products for water treatment which it hopes will be of high enough value to turn into global products worth exporting.

Rhône-Poulenc has established a

research team to develop high performance products from its waste. The group, which produces 500,000 tonnes of gypsum a year, spends FF10m annually to neutralise and generate the mineral. "Right now we are only giving value to a few hundred tonnes of gypsum," says Jean-Claude Bravard, president of the group's coatings and construction materials division.

Trying to manage the sale of by-products as if it were a traditional business unit can be difficult, because the quantity of waste produced is dependent on demand for the titanium dioxide.

"Because the co-products are a consequence of making the pigment in the first place, you cannot regulate the quantities that you have to deal with," says Louw.

"That is a marketing challenge, because if the demand for pigment drops, you could still have a high demand for the co-products. So you have to be flexible in your ordering arrangements."

Bonus plans also cannot be based on traditional profit motives. At Tioxide, the management reward system takes into account the cost of environmental compliance. "We need to achieve this environmental performance and it has cost us money," says Pedder. "We use an inverse accounting process where we say: assuming you have to do the neutralisation process and incur that cost anyway, how much has the materials business contributed to lowering that cost, rather than how much profit has it made?"

Similarly at SCM, executive bonuses are based on group-wide achievement of profit targets rather than performance of individual businesses. "The bonus plan is not geared towards a particular plant selling enough gypsum to recover the cost of producing gypsum," says Dan Friedman, general counsel in charge of SCM's environmental auditing programme.

Although Friedman believes it is unlikely that the commercialisation of its waste will ever recover the full cost of environmental compliance - SCM spends about \$3m a year neutralising and converting its waste - he says the business could not survive without it. "This is simply the cost of doing business in today's society. Either you comply with environmental laws or you are out of business."

He believes there is little room for further regulation. "By and large, industry has done what is really necessary to clean up its act. It is now a question of diminishing returns: we have already got rid of 99.7 per cent of all pollutants in our waste and we would probably spend \$50m to remove those last three parts per billion."

"That would reach the point of madness and our products would be prohibitively expensive."

A leak in Japan's newest reactor may have undermined its energy programme, says Emiko Terazono

## Nuclear policy starts to crack

have plunged while concerns about nuclear proliferation have spread internationally.

Critics of the plutonium programme point to the costs, which make commercial use of reactors unfeasible. Fast breeder reactors are also expensive to build, and the 280MW Monju cost Y390bn (£23.73bn), around twice the price of the older 500MW reactors. Moreover, Japan still relies on the UK and France to reprocess its used nuclear fuel into plutonium, and the shipments of fuels and the highly radioactive plutonium has caused outcry.

The government says its plutonium programme remains unchanged in spite of the protests by local people and environmental groups. But it has conceded that the reactor will not be restarted without the full consent of nearby residents.

The nuclear reactor began generating electricity in August 10 years after its inception and was scheduled to start full operations in June next year. However, Yasuaki Urano, director general of the Science and Technology Agency, says that it will take more than six months to resume operations at Monju.

The government may be forced to review its plutonium policy because of technical reasons highlighted by the leak: in fact, complications in using plutonium as a coolant led to decisions by the UK and Germany to abandon its development.

Although plutonium is regarded as efficient, since it does not need to be pressurised, it reacts violently on contact with water or air. PNC officials believe the plutonium leaked from parts of the cooling pipes which were welded together five years ago. It created thick toxic smoke in the outside air.

Some critics say Monju could become another Mutsu, Japan's first nuclear-powered submarine which was abandoned after a radiation leak was detected within minutes of its first test in 1974.



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## ARTS

Television/Christopher Dunkley

## A zap through the networks

Y ou have worked late at the office, had a drink with friends, and gone home to a microwaved Marks and Spencer's dinner. It is nearly midnight. You carry your tray across to the old green sofa, slump down, use the remote to turn on the telly, and discover that BBC1 is showing an American crime movie which you have seen before. Try BBC2. A South African bishop is describing the effects of land mines. Switch to TV. They are showing *Prisoner Cell Block H*, an Australian series about a women's prison which you have heard is supposed to be a cult, but mainly among lesbians. And Channel 4? They are screening something American about a hospital, judging from the soundtrack if it is supposed to be funny, yet the lines do not strike you as amusing.

Here, surely, is where the cable comes into its own: 46 more channels, many running 24 hours a day. There must be something worth while among all that lot. Select channel 5 in the television and exchange the TV remote for the cable remote. Hit 01 and you see a man sitting in a garret with what appears to be a remote in his hand. It is an electronic crossword solver. He is trying to sell you one. Zap. UK Gold ("British entertainment at its best") is showing a Jasper Car-

rott repeat. You stay long enough to see London Wainwright III do a dreadful number with a guitar. Zap. On Sky Movies Gold, *Cather-*

*ine Désirée* is strutting her stuff in 1960s lingerie *Belle de Jour*. Zap. Channel 9 has nothing but a rolling service message. Zap. On the Performance channel, where you can sometimes find an open of a symphony concert late at night, they are doing the sort of jazz that sets your teeth on edge. Zap. Sky 1 offers a Carlsberg commercial. Zap. On Eurosport an American is shouting at you in an attempt to make you buy an exercise machine for £280. Zap to 13, the Movie Channel, and this looks better than anything so far: movie (*After Midnight* you later discover) which you have never seen. However, it is now nearly 1.30 am and you can tell from the content that you must have missed most of it.

Zap. Movie studio chat about football on Sky Sports. Zap. Sky Sports 2 is off the air. Zap. Zap. Channels 16 and 17 both carry Asian language programmes. Zap. RVC is showing a movie you have seen twice. Zap. Bravo is off the air. Zap to 20, the Parliamentary Channel, which has also closed down. Zap. SelectTV, "the best in British entertainment", is off the air. Zap. On the Afro-Caribbean BET there is a black rap artist. Zap. Channel 23, Sky Movies, at last! A film, *Bitter Harvest*, which you have not seen, and which looks as though it has only just begun. You watch till the bitter end, which means staying up till 2.30, though you fairly quickly conclude this is an exploitation movie (fleeting shots of Patsy Kensit topless) with a ludicrous plot about robbing banks. Next time, you vow, you will work downwards through the cable channels from No 46 because there must, surely, be something better than this.

The occasion arises sooner than expected. Only three days later you find yourself in mid-swinging bored to tears by *Dangerous* on BBC1; determined to save BBC2's *Have I Got News For You* to watch with your friends when it is repeated on the following day; not inclined to

else. You wait a moment to see whether they will move onto something that interests you, but banking seems set to go on and on. Zap. Channel 9 has nothing but a rolling service message. Zap. On the Performance channel, where you can sometimes find an open of a symphony concert late at night, they are doing the sort of jazz that sets your teeth on edge. Zap. Sky 1 offers a Carlsberg commercial. Zap. On Eurosport an American is shouting at you in an attempt to make you buy an exercise machine for £280. Zap to 13, the Movie Channel, and this looks better than anything so far: movie (*After Midnight* you later discover) which you have never seen. However, it is now nearly 1.30 am and you can tell from the content that you must have missed most of it.

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The occasion arises sooner than expected. Only three days later you find yourself in mid-swinging bored to tears by *Dangerous* on BBC1; determined to save BBC2's *Have I Got News For You* to watch with your friends when it is repeated on the following day; not inclined to

watch *News At Ten* since you saw the *Nine O'Clock News*; and not interested in Channel 4's American import. So: select Channel 5 and hit 48 on the cable remote. The Sci Fi channel is showing a dreary studio-based 1950s (could be 50s) fantasy episode in black and white. Well, grey and grey. Zap. TV Cine has a black rap artist performing in studio in English, though this is a French network. Zap. ETV is showing *Robotop* in German. Zap.

watch *News At Ten* since you saw the *Nine O'Clock News*; and not interested in Channel 4's American import. So: select Channel 5 and hit 48 on the cable remote. The Sci Fi channel is showing a dreary studio-based 1950s (could be 50s) fantasy episode in black and white. Well, grey and grey. Zap. TV Cine has a black rap artist performing in studio in English, though this is a French network. Zap. ETV is showing *Robotop* in German. Zap.

known as *Los Amigos*, starring Anthony Quinn. You have heard of subjective camera, but this movie invents subjective microphone: when Smith, watches his friend gallop away over the rocks there is total silence... because he is deaf.

Smith finally rides off and leaves

his buddy to the girl at 12.30 am.

Time to look through the last three choices. Zap. The Discovery Channel has closed down. Zap. MTV, as always, is showing pop videos. Zap.

On Channel 24, The Box, they are running a commercial for the new Meatloaf record "Welcome To The Neighbourhood". So is that really it?

A few random zaps. UK Gold is now repeating an ancient *Dr Who*.

Sky Movies Gold is giving us yet

another chance to see the bizarre *Russ Meyer extravaganza Faster Pussycat! Kill! Kill!* Can you resist

watching it again? Of course not.

The wee small hours have crept

round once more. One last look,

just in case you are missing some

thing wonderful. BET has a ghost-

like white singer doing the Michael

Jackson number "You Are Not

Alone"... good grief, it is Jackson

himself. On the Superchannel

Selina Scott is chatting to a black

rap artist. On the Adult Channel

another wet tee-shirt contest is

under way. It is 2.35 in the morning. There is nothing on television.

Zap.

## Ballet/Clement Crisp

## Nutcracker's last stand

**F**irst, the bad news. English National Ballet's *Nutcracker*, in Ben Stevenson's staging - now ensconced on the South Bank's own version of Death Row - is as loathsome as ever. (Its first act is based on the premise that falling down, whether through drink or sheer recklessness, is an essential of entertainment.)

The good news is that this season marks its final outing, and by January the dustmen will be able to lug it to some municipal tip where, so advanced is its state of decomposition, it will soon disappear. Next Christmas, Derek Dean will give us a new version which - please Heaven - will listen to the drama and magic of the score, and will be marked by civilised behaviour and classic propriety, from the dancers if not the audience.

Looking at the brawl on Monday night, I thought enviously of fiction reviewers who have only to cope - so says the blurb to a recent novel - with "a pulsating tale of interclan lesbianism and Bengali women's football". This might just do as a description of the party chez Stahlbaum in *Nutcracker's* first act, with the added charm of a Papa who

makes his own clothes (on the fit-where-it-touches principle), alcoholism, child molestation, and a little girl who is plainly 30 years older than her parents believe her to be. All that is needed (apart from the attentions of a psychotherapist) is Benzi, lesbian in football boots.

There were compensations to the evening, nonetheless, in three dance performances. If I had

Thomas Edur yet again, it is to

salute the continuing beauty and

distinction of his classic style.

Everything he shows us - dance,

character - is shaped by a refined

sensitivity, by harmony of means,

and given an essential clarity.

In the non-role of the Prince, he offers

phrases of movement that have an

emotional, even a spiritual, "lift"

quite as real as the upward surge of

his dancing. We see something

pure, grand, truly classical. It is

dancing of rare worth.

I also enjoyed very much the

appearances by Monica Perego as

the Sugar Plum, and by Josephine

Jewkes leading the flower waltz.

Miss Perego is light, precise, charm-

ingly secure in technique. What is

so delightful about her Sugar Plum

is an absence of mannerism. She

sets out the dances with a touching appreciation of what the choreography is doing; you sense that she knows exactly what its message and is not going to interpose her own "voice" to cloud the issue. There

results a reading delicate, musical. She might find a moment's more radiance for the variation (Markova was a child's dream of frosted, spun-sugar delight in this solo), and her shoes are dull, but hers is dancing of distinction, and reminds us of what *Nutcracker* should be.

Josephine Jewkes, too, brought a proper radiance to the sickly horrors of the Kingdom of Sweets. With dancing free, generous in shape, touched with that sense of joy which warms an audience, she caught the spirit of the waltz beautifully.

For the rest, there were eager performances - some far too eager and, nearly submerged, the splendours of that amazing score. Let the next staging will listen to the music.

## Panto/Simon Reade

## Dream-layered 'Hansel and Gretel'

**C**heer up! Experience a new culture! Thus enthuses Dad to Harry, landing at Kiev airport on January 6 1996. Christmas Eve in the Ukraine. Writer Michael Dalton then weaves a complex dream vision of the Brothers Grimm tale entitled *Hansel and Gretel* within this modern frame. However, the attempt to be culturally diverting is thwarted by detours down undramatic cul-de-sacs.

Sceptical of what his new environment can offer him, Harry (the very funny Daniel Harcourt) unwittingly has dreams inspired by the local customs. He is Hansel, the wood-chopper's son abandoned in the forest. His dream can only progress in rhyme. Clever, in his dream, Harry/Hansel meets Gretel, who is also dreaming - but 50 years previously. In her dream she has another dream of her mother's Kiev theatre, where a famous Cossack actor (his Bottown was big in Bratislava) and recounts his dreams. She says: "I had that dream 50 years ago!" The rest is left to our

imagination.

The children seem to like the five versatile performers, especially Paul Dainty as a bit-part actor who, in moments pre-figuring the dream and backstage sequences, acts out his fantasies of being a Hollywood film hero. They are fairly gratuitous, but more fun than a schlock "Song for Europe" interlude, the Ukrainian characters' salted cod accents, or inappropriate peeks of Gretel's thighs (leggy Sura Stockbridge).

Jonathan Holloway's direction veers between the nadir of commercial panto and the zenith of story-telling attained last year at the Young Vic, the grisly yet exquisite *Grimm Tales*. This co-production between the touring company's Red Shift and Pop-Up is audacious but frustratingly inconsistent and sadly flawed.

*Hansel and Gretel* is at the Lyric, Hammersmith until January 6, 1996. (0181 741 2311). Supported by Royal Mail.

## WORLD SERVICE

BBC for Europe can be

received in western Europe on Medium Wave 648 kHz (483m)

## STUTTGART

Staatsoper Stuttgart

Tel: 0711-221795

● Ongén: a choreography by John Cranko to music of Stolz/Tchaikovsky. Soloists include Karin Matilla, Ben Heppner and Bernd Weikl; 8pm, Dec 21

## SYDNEY

THEATRE

Comédie Française, Salle

Richelieu Tel: 33-1 40 15 00 15

● Occupé-tot d'Amélie: by Georges Feydeau. Directed by Roger Planchon. The cast includes Brigitte Dautour, Alain Pralon and Nicolas Silberg; 8.30pm, Dec 21, 24 (also 2.30pm), 27 (also 2.30pm)

## ROTTERDAM

EXHIBITION

Kunsthal Tel: 31-10-440301

● Passage Brussel: Nederlandse

schilders in Brussel 1850-1890:

exhibition of works that were made

between 1850 and 1890 by Dutch

painters who lived in Brussels; from Dec 22 to Feb 4

## VIENNA

CONCERT

Konzerthaus Tel: 43-1-7121211

● Thomas Hampson: accompanied

by pianist Wolfram Rieger. The

baritone performs songs by Mahler,

R. Strauss and Webern; 7.30pm; Dec 22

● Wiener Symphoniker: with

conductor/pianist Rudolf

Buchbinder, the Wiener

Jeunesse-Chor and soprano Petra

Marie Schnitzer perform works by

Haydn, Mozart and Beethoven;

7.30pm; Dec 20, 21



Tony Slattery as the rouged, resident queen, Acting Captain Terri Dennis

Directed by Peter Eschberg and performed by the Schauspiel Frankfurt; 7.30pm; Dec 22

■ GENOA

CONCERT Teatro Carlo Felice Tel: 39-10-588329

● Il Natale del Redentore: by Pergolesi. Performed by the Orchestra del Teatro Carlo Felice, conducted by Gianandrea Gavazzeni; 8pm, Dec 23

■ GLASGOW

CONCERT Theatre Royal Glasgow Tel: 44-141-3323321

● Peter Pan: a choreography by Graham Lustig to music by Edward McGuire; performed by The Scottish Ballet; 7.15pm, Thur & Sat; 2.15pm, Sun 2



Edward Mortimer

## Indignation fatigue

Bosnia has been partitioned and we should stop pretending that it has not, or that we have anything better to suggest

Bob Geldof, the rock singer and philanthropist, announced some time ago that he was suffering from "compassion fatigue". Last week, listening to an expert demolition of the Dayton agreement on Bosnia, I realised I was suffering from a similar complaint, which one might call "indignation fatigue".

No doubt about it: the agreement is thoroughly unjust, and much of it is clearly unworkable. Richard Holbrooke, its main architect, is being even more dishonest when he claims it is going to recreate Bosnia as a single state than when he tells the US Congress that the Implementation Force (Ifor) will not be involved in combat operations because the troops are being deployed with the consent of all parties.

The latter proposition is very likely to prove wrong, since many of the Bosnians most directly affected by the accord were not represented in Dayton: the Serbs of Grbavica and Ilidza, districts of Sarajevo hitherto under Serb control; and the Moslems from regions which have been traded away to maintain the Serb share of Bosnia at the agreed 49 per cent. Kresimir Zubak, the Croat leader, was present in Dayton, but resigned rather than initial the agreement which gives away his home town of Doboj.

Still, there is just a chance that such local leaders will be overawed by the pressure of their bosses who did sign, and by Nato firepower. They might decide it is prudent to wait until Ifor has departed before seeking to adjust the agreement in their favour by carefully targeted military operations. And with a bit of luck it may then be too late, because the new demarcation lines will have solidified and the "entities" behind them will have acquired a degree of organisation and discipline.

Yet the very fact that is the optimistic scenario shows clearly that this agreement ratifies partition and makes

no attempt to reverse it. In theory, refugees are meant to go home, although in the great majority of cases this would mean crossing the lines of separation into "enemy" territory. In theory, the residents of Grbavica and Ilidza should stay put, enabling the Bosnian government to show how seriously it takes multiculturalism by treating them with scrupulous fairness.

In practice, no one expects either of those things to happen. Refugees will not return to places where the local police force is still composed of the people who drove them out, probably including those who massacred their relatives. And if the Bosnian Serb army does move out of Grbavica and Ilidza, as the agreement says it must within one month, few civilians will stay behind to see how Bosnian government forces behave. The great majority of them will flee, as their cousins in the Krajina did during the Croatian blitzkrieg in early August. Unhappily, the behaviour of Croatian government forces towards the few elderly Serbs who remained in the Krajina only proved how right the rest had been to get out.

The "Serb Republic" in Bosnia will remain separate. Refugees will not return to places where the local police force is still composed of the people who drove them out, probably including those who massacred their relatives

It is time to call a halt. And it is time to pay tribute to the UN soldiers and civilians who, for the past three years, have struggled to fulfil an impossible mandate with hopelessly inadequate resources - a struggle in which more than 200 of them gave their lives. Let us hope that Ifor, with its vastly superior numbers and equipment and its much more carefully defined mandate, will fare better.

But it does seem rather hard that the UN, at the very moment when it is being elbowed aside in Bosnia, should now be expected to police a thoroughly one-sided agreement imposed by US negotiators on the Serbs of eastern Slavonia, who were threatened with being immediately overrun by Croatian forces if they refused to sign.

After three years as the US's whipping-boy in the former Yugoslavia, Boutros Boutros Ghali, the UN secretary-general, is understandably reluctant to accept another unworkable mandate.

So what does he get for his pains? Another verbal drubbing from Madeleine Albright, the US ambassador to the UN.

Just a minute! I almost thought I felt a twinge of indignation...

entity, perhaps inhibited by international pressure from formally joining Serbia, but still enjoying much closer links with that country than with other parts of Bosnia. There is a clear precedent for this in the "Turkish Republic of Northern Cyprus". This entity is still legally part of Cyprus, and international pressure obliges it to go through the motions of talking to the Greek Cypriots about reunifying the island as a "bi-zonal, bi-communal federation". But in practice it is closely linked to Turkey, and the Greek Cypriots who fled their homes in the area in 1974 have never been allowed to return.

What remains unclear is whether the Moslem-Croat "federation" in the rest of Bosnia will become a reality or whether, contrary to the agreement of "Herceg-Bosna", the separate republic of "Herceg-Bosna" will remain in being. The inhabitants of the latter - to all intents and purposes an extension of Croatia - even voted in the recent Croatian elections.

If Herceg-Bosna is dissolved, the price will almost certainly be that the federation becomes a satellite of Croatia, on which it will remain heavily dependent for overland communications. If Herceg-Bosna continues, on the other hand, the Moslem rump of Bosnia will lead a precarious land-locked existence, dependent on some kind of permanent airlift for its survival.

It is all thoroughly lamentable. The results of "ethnic cleansing" have in effect been ratified. An appalling precedent has been set. The moral pretensions of Europe, the UN, even the US, have been exposed.

Yet somehow I can no longer get worked up about it. That *lache soulagement* (cowardly relief), to which a French writer admitted at the time of the 1988 Munich agreement, has crept over me. I am no longer prepared to urge

that the Bosnian government be armed, and assisted by western air power, so that it can "liberate" the parts of Bosnia still under Serb "occupation".

It is true that those areas contain the homes of many Moslems and Croats, and probably of quite a few Serbs who, given the choice, would rather have lived in a multicultural Bosnia than in an ethnically pure Serb republic. But those wrongs cannot be righted now. Even the present military balance, which has made this half-peace possible, was achieved only by military operations which brought with them new wrongs: the mass flight of the Serb population from the Krajina and from many towns and districts in north-western Bosnia.

It is time to call a halt. And it is time to pay tribute to the UN soldiers and civilians who, for the past three years, have struggled to fulfil an impossible mandate with hopelessly inadequate resources - a struggle in which more than 200 of them gave their lives. Let us hope that Ifor, with its vastly superior numbers and equipment and its much more carefully defined mandate, will fare better.

It is all part of his strategy to return Asda to its roots as a low-priced operator aimed at "ordinary working people", and inject "personality" and "fun" into its supermarkets - through everything from fancy dress days to singles nights. Yet Archie Norman seems an unlikely consumers' champion and advocate of "fun" shopping. Tall, lean and fresh-faced, he is earnest and reserved, apt to lapse into the consultant-speak learned through a Harvard MBA and seven years with McKinsey, the corporate strategy experts.

His seriousness stretches back to university days at Emmanuel College, Cambridge. "This was the 1970s," says one contemporary. "Most of us drank and played hard. Archie worked hard."

Mr Norman did, however, find time to chair the students' Conservative association. He also forged contacts among fellow students such as Mr Michael Portillo, the defence secretary with whose views he sympathises, and Mr Francis Maude, chairman of the deregulation task-force and an Asda director.

After spells at Citibank and Harvard, Mr Norman joined McKinsey, becoming a member of the British generation nick-

named the "McKinsey mafia". Contemporaries included Mr Adair Turner - another Cambridge friend - now director-general of the Confederation of British Industry, and Mr Howard Davies, deputy governor of the Bank of England.

Mr Norman was lured away from McKinsey in 1986 by Kingfisher, the UK retail group he had helped found off a bid from rival Dixons. In five years as Kingfisher's finance director, he gained respect in the City for his intellect and communications skills.

When he arrived as Asda in 1991, he spotted the need to stop it aping competitors such as J. Sainsbury and find a new approach in an era of overcapacity in retailing and low spending growth. His warnings of the end of the "halcyon days" of food retailing raked competitors.

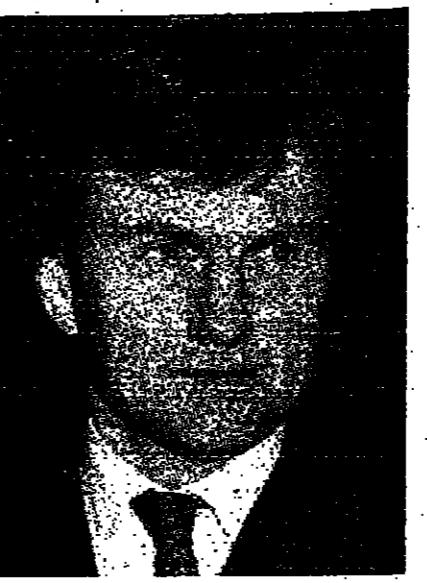
"People might not like the way I did it, and might say I was talking my own book (which is what I am paid to do)," he says. "But it is much better if they understand the realities before they happen. I think I did everyone a great favour."

His strategy was to differentiate Asda through lower prices, friendlier stores, and a broader range of goods. That was backed by a top-to-bottom culture change to

## LEADERS FOR A NEW MILLENNIUM

Archie Norman · By Neil Buckley

## Politics on the shopping list



ensure all staff - or "colleagues" in Asda-speak - "walked the talk".

In came open-plan offices, meetings held in offices without chairs to keep them short, and the "Wall of True Believers", an 18-foot blackboard in head office on which managers chalk promises of improvement.

Shop staff were "involved" in the business by being given full results breakdowns, and encouraged to write with suggestions and complaints to the chief executive in a "Tell Archie" campaign (14,000 did so last year). Best-performing staff won the use of a Jaguar for a month.

Inevitably, there were casualties: insiders say Mr Norman's head office shake-up was often brutal. And rivals point out Asda's shop staff are among the lowest-paid of any large grocer. There have been several clashes this year with the GMB, Asda's union.

But Mr Norman says he celebrates the decline in Asda's union membership from 80 per cent to little over 20 per cent. "I don't think unions like the GMB have changed at all in the last 20 years. They have not found a role," he says.

Are such views, along with his non-executive directorship of Railtrack and strong support of rail privatisation, a pointer to his political future? Mr Norman remains cagey. "I don't think I will spend my (whole) career at Asda," he says. "But I like the company, and have put a lot of myself into it. I am committed to leaving it in good shape."

"As far as politics go, I have a given interest in the public sector. That is something I might look at."

Mr Norman brushes aside suggestions he will be Conservative candidate for his local Harrogate constituency at the next election. But he is understood to be on the party's 600-strong "A" list of parliamentary candidates.

Retail observers suggest Mr Norman may wait until at least 1997, when he should collect £5m from maturing share options, on top of his existing £3.5m paper profit from exercisable options. That would be too late to fight the next general election which must be held before mid-1997, but he might then seek to enter parliament through a by-election.

Mr Norman's organisational and motivational skills could be welcomed at Conservative Central Office, especially if the party were to find itself in opposition. For the unlikely shoppers' champion, the next challenge might be doing for the Conservatives what he has done for Asda.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 0171 873 5938. Letters transmitted should be clearly typed and not hand written.

Please set fax for finest resolution. e-mail: letters.editor@ft.com

## WTO's aim is constructive approach on labour

From Mr Renato Ruggiero.

Sir, I read with interest your story "WTO chief tries to avoid confrontation" (December 14), which said that, during my report to the World Trade Organisation general council on development in the trading system, I "made clear [my] opposition to moves to raise the controversial issue of trade and labour standards". I

would like to make clear that the issue is not one of any personal opposition to this question or, indeed, any other questions which WTO members may wish to see discussed.

My views, which were reflected well later in the article, are simply dictated by a desire to ensure that we prepare for the Singapore

ministerial meeting next year, and for the future agenda of the WTO in general in a manner which avoids confrontation.

This is the spirit in which, in all my public and private presentations of the "labour standards" issue, I have underlined the necessity for informal dialogue at a very early stage.

In this way, I believe we can help ensure that if the issue is raised in Singapore it is dealt with constructively and on the basis of consensus.

Renato Ruggiero,  
director-general,  
World Trade Organisation,  
154 rue de Lausanne,  
1211 Geneva 21,  
Switzerland

## Fair system on liability

From Mr Brian Currie.

Sir, The recent judgment against BDO Binder Hamlyn "Accountants hit by tort damages", December 7) and the indication that accountancy practices may be considering offshore registration of their businesses to protect partners' personal assets have both received extensive press coverage in the past week or so.

Both these developments reinforce our view that there is a need to move as a matter of urgency towards the introduction of a fairer system of liability for auditors.

Our case is a simple one. It is right that auditors should be liable to the extent of their responsibility for any losses that may have been suffered.

The present method of determining liability, under which auditors are held jointly and severally liable with other parties, is, however, fundamentally unfair in that auditors can end up being held financially liable, not only for their own mistakes, but also for the mistakes of others.

That is why we are seeking reform of joint and several liability and the right for auditors to be allowed under company law the normal commercial freedom to agree reasonable limits to their liability, subject to adequate safeguards for the interests of the shareholders.

From Mr Brian H. Gill.

Sir, It is depressing that EU council members have failed to heed the practical criticisms and workmanlike comments of the British prime minister ("EU backs Euro as name for single currency", December 17).

Surely the only important convergence criterion for the future health of Europe is that of joblessness. Eurostat figures suggest the current benchmark looks to be Luxembourg and Austria. If the federal US can contrive to keep its unemployment down to 6 per cent or so, why should Europe not manage the same? Should one ponder that the name of its currency, the dollar, had a strong historical pedigree when it was chosen?

Agreement among Europe's leaders to the Euro as a name for a currency seems an insufficiently inspired response to our problems.

Christopher Gill,  
261 Grove Street,  
Deptford Wharf,  
Essex CB1 3TH,  
UK

## Collapse did not materialise

From Mr Ahmed Al-Ibrashy.

Sir, James Whittington's report "Radicals frustrated by Egyptian poll" (December 13) stated that "Mr Mubarak is now determined to marginalise all real and imagined dissenting voices." He also said that "most diplomats and foreign companies in Cairo agree that risk of instability has increased as a result of the elections". Yet earlier in his report James Whittington said that "only two years ago diplomatic missions and foreign companies in Cairo were drawing up contingency plans for the collapse of President Hosni Mubarak's government under a wave of Islamic

insurgency". It is now clear that this so-called "collapse" did not materialise, and that these diplomatic sources were wrong then as they are now in making such sweeping statements.

The story also contradicts James Whittington's report of July 31 ("The hangover after the rave in Cairo") which concluded that Egypt's economic climate had "all the ingredients of a success story". Could this have been achieved on the brink of a "collapse"?

Ahmed Al-Ibrashy,  
press counsellor,  
Egyptian Embassy,  
2 Harewood Place,  
London W1R 9HE, UK

## More 'they' than 'we'

From Mr Christopher F. Pem.

Sir, "We have had tremendous success keeping inflation down," the governor of the Bank of England is reported as saying in the FT Interview (December 18).

Surely, does not the low rate of inflation owe little to what "we" have done and much to competition from low-cost, high-quality goods produced in the low-wage economies of Asia?

Christopher Pem,  
Pendle,  
Burdenside Hill,  
Worplesdon,  
Surrey GU13 3RL, UK

SIMPLY put, your money

goes FURTHER with

this AIRPLANE  
than with  
ANY competitive turbine.

King Air C90B

The Beech King Air C90B provides ample proof that comfort and efficiency can, indeed, mutually coexist.

The C90B is the most direct route to twin-turbine efficiency and reliability. No jet comes closer to saving you the kind of money on fuel costs you'll save with this airplane.

And yet, saving on fuel is just one business advantage to owning a C90B.

There is also the reassurance of a service and support network larger than any other in the world.

Another advantage is the comfortable working conditions. The cabin is designed for efficiency, with spacious room for five key executives to conduct business. The appointments are comfortable. The sound levels are not.

This kind of environment lends itself

to a more productive use of your time.

The proven Pratt & Whitney jetprop engines make more productive use of your fuel.

Together, they offer you a more productive use of your money. If that is something that is still popular at your corporation, contact the Beech distributor nearest you, or call Beech Marketing, Wichita, KS, U.S.A. 1-316-678-5072, FAX 316-678-8808, TELEX: 202603 (BEECH) for more information about the Beech King Air C90B.

Raytheon Aircraft

Beech  
Hawker

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## FINANCIAL TIMES

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Wednesday December 20 1995

## Wall Street gets broody

The US economy has been the last refuge of the optimist over the past few months. While Europeans have been nervously wondering whether this year's "pause" in growth will be next year's recession, financial markets in the US believe things can only get better. But US investors have not merely hoped for the best - they have bet large amounts of money that certain highly favourable events would occur at or around the end of the year. That has left them prone to rapid - and destabilising - second thoughts.

The longer the US economy stands out from the crowd, the better it will be for Europe's overstocked producers. The pessimism about the European slowdown can be overdone. But continued non-inflationary growth in the US next year, pushed along by falling real interest rates, would have welcome knock-on effects for exporters to that market.

For its part, the Organisation of Economic Co-operation and Development would probably be rather more upbeat in its latest survey of economic prospects were it not for the promising signals from the US. The organisation now expects US GDP growth of 3.3 per cent this year and 2.7 per cent in 1996. This compares with expectations of 3 per cent and 2.5 per cent, respectively, only two weeks ago.

The US is the only member of the Group of Seven leading industrial countries to have had its forecast revised upwards since June. The others have been revised downwards -

sharply, in some cases. The markets sense that the US has put its own, earlier slowdown behind it could be self-fulfilling. With the Dow Jones Industrial Average up 35 per cent over the first 11 months of 1995 and long-term interest rates down by more than 2 percentage points, consumers and companies are likely to spend and invest more.

Yet a good deal of investors' exuberance is based on counting chickens that they might have waited to see hatched: the safe passage of an agreement to balance the federal budget over the next seven years; and, as a reward, a further cut in short-term interest rates by the US Federal Reserve. The Dow fell 100 points on Monday as investors began to worry that neither would occur soon.

The Federal Reserve, which yesterday cut the interest rate on Federal funds by a quarter of 1 per cent, to 5% per cent, may yet regret loosening policy before President Bill Clinton and Congress had settled their budgetary differences. It is not obvious that the economy needs another monetary boost, although it is difficult to argue that a cut of this size will make much difference either way.

What the US needs more is for its fiscal house to be put in order. Even after yesterday's rate cut, the immediate outlook for the world economy seems to rest, to an uncontrollable degree, on whether Mr Clinton and Congress can persuade investors that this unlikely event has occurred.

## Not West

As one of the most heavily regulated retail banking markets in the world, the United States ought to have been a happy hunting ground for efficient foreign banks used to operating in a more competitive domestic environment. Yet in practice, the foreigners have failed to make much of the opportunity, as NatWest Group's proposed sale of NatWest Bancorp once again underlines. While the British bank has done well to extract its US subsidiary from its recent troubles, this was not a happy investment for its shareholders. Nor were the other big British clearers notably more successful. Why did they find the going so rough in the US?

One obvious reason for the low return on their investment was that they overpaid at the outset. This was partly a case of poor timing. But it also arose from the belief that it was necessary to pay an entry premium. For some, the risk in overpaying was then compounded by gearing: because banks' assets and liabilities are supported by only a thin wedge of capital, balance sheet ratios quickly deteriorate if the acquiring bank's capital is denominated in a depreciating currency. This was a particularly damaging feature of Midland Bank's acquisition of Crocker in California, which was very large in relation to Midland's own balance sheet.

Most foreign banks buying into the US experienced difficulty in controlling local management; and

with Midland, Crocker was acquired on terms that prevented the purchaser from exercising proper control unless things went badly wrong, which, of course, they did. Assessing risk is hard enough at a distance of several thousand miles. Without adequate representation or reporting disciplines, it becomes impossible.

In practice, the most successful new entrants into US banking have not been foreigners but domestic non-banks, such as the securities groups that drained the US banking system of deposits in the 1980s by introducing cash management accounts and money funds. Whether through regulatory inhibition, or lack of entrepreneurial energy and technological expertise, foreign banks failed to exploit the US banks' weakness in the same way. Nor have foreign banks performed well in other developed countries.

If there have been cross-border successes in retail banking, they have tended to come from a transfer of expertise and technology from developed to developing countries. The former British colonial banks are one example. Another is Citicorp in Latin America. This surely makes more sense than ambitious acquisitions. In a world of liberalised capital flows, takeovers anyway pre-empt the shareholders' right to diversify their own portfolios for themselves. Even with hindsight, it seems odd that they were so tolerant of these deals at the time.

## Weak links

With so much at stake in the Northern Ireland peace process, it might seem foolish for the British government to lock horns with Dublin over the relatively modest matter of £27m (£28m) in subsidies for a smallish steel plant. It is right to do so, all the same. The proposed subsidies would harm the Irish economy and serve as a bad precedent within Europe. They should also be irrelevant to wider Anglo-Irish relations.

Irish officials have been quick to suggest that London's opposition to their proposed subsidies to Irish Steel could cast a cloud over Anglo-Irish relations. They have indicated that, without a resolution, Mr John Major's planned informal visit to Dublin tomorrow could be called off, hinting that Mr John Bruton, the Irish prime minister, would find it difficult to play host while the fate of 330 jobs at the Cork plant hung in the balance. But London should resist such pressure.

Under European Union rules, steel subsidies are banned unless the European Commission and member states unanimously agree to treat a particular case as an exception. Even then, exceptions can only be granted for specific types of aid - such as money for pollution controls. General subsidies were outlawed as long ago as 1985. There has been some backsliding, notably in 1993 when member states supported a commission plan for grants to six plants in Italy.

Japan's imperial economies go



## After the dress rehearsal

Yeltsin has to find new ways of winning voters' confidence after the Communists' victory at the weekend, says Chrystia Freeland

In the aftermath of the sweeping Communist victory in Sunday's parliamentary election, Mr Boris Yeltsin, Russia's president, faces one of the most difficult challenges of his career. Although the parliamentary poll is unlikely to have much immediate practical impact, it is a dress rehearsal for the presidential vote due to be held in June.

If Sunday's voting pattern were repeated, Russia would face the alarming prospect of a run-off for the presidency between Mr Gennady Zyuganov, the Communist boss, and Mr Vladimir Zhirinovsky, the country's most extreme nationalist.

By overwhelmingly supporting Communists and nationalists, the Russian people have delivered a strong rebuke to Mr Yeltsin and the bold political and economic reforms he has implemented over the past five years.

Unlike the Soviet-era Communists, whose last effort to impose their dictatorial will on the Russian people was the failed hardline coup in 1991, the Communist party of Mr Zyuganov has returned to political prominence because it genuinely appeals to Russian voters. Mr Zyuganov has interpreted this week's results as "an effective vote of no confidence in the government" which showed Mr Yeltsin's reforms to have been "a dismal failure".

The Communist chief has pledged to end Mr Yeltsin's "radical policies" and replace them with a programme that emphasises higher social spending. He also said he would challenge some of the swift privatisations of the Yeltsin era.

For the moment, Mr Zyuganov's declaration of total victory is premature and his power to implement his promises is limited. Although the Communists appear set to dominate the parliament, real authority is vested in the presidency. The referendum on Mr Yeltsin's reforms will be the June presidential election.

One response to the apparent public disgust with economic policy would be for the Kremlin to take Mr Yeltsin's advice by relaxing its budgetary discipline and halting a privatisation programme which has provoked allegations of corruption.

There have been a few indications this week that the government might take a left-hand turn. In his eleventh-hour effort to stave off a Communist victory, Mr Victor Chernomyrdin, the prime minister and leader of Our Home is Russia, the pro-government party, made an awkward attempt to co-opt the Communist agenda.

The single greatest reason for the swing to the Communists was discontent with the traumatic economic transition Russia has undergone. The economic reforms first launched by Mr Yeltsin's administration four years ago have transferred most of the Russian economy to the private sector, and this year's austere fiscal and monetary policies have brought down inflation, but the social costs have been high. According to official figures, the Russian economy continued to contract slightly this year after several years of sharp decline, and living standards have deteriorated because of this year's deep cuts in social spending.

As Mr Grigory Yavlinsky, leader of Yabloko, Russia's most powerful reform party, argued yesterday, it was the government's economic policy which produced a political victory for Communists and nationalists.

"Forms of fighting inflation

such as failure to pay pensions and wages, a macroeconomic policy

which leads to a 22 per cent fall in

investment and a 28 per cent

decline in real incomes over the

past six months - all these indica-

tors show that by breeding poverty

in this country the government is

creating a political base for Commun-

ist movements and Zhirinovsky-type

movements," said Mr Yavlinsky.

For Tugwell to learn that NatWest wanted to sell its US operation. He argued that the returns of

NatWest's US bank were as good as

any in the world. The terms of

yesterday's sale may allow him

some secret satisfaction.

Just three months ago NatWest's

advisers had said it might raise

\$2bn from a sale; now, it is assumed

of considerably less. Perhaps

Tugwell should have been allowed

to sell on.

However, Tugwell has been cast

adrift from NatWest and will run

Fleet's enlarged New York bank.

His first job: to cut 1,500 jobs, most

of them from the ranks of the bank

he had just built up.

to some extent.

The subject of the next session?

The administration of finance

under the ancient regime? So

precisely how long has this

meeting been delayed, then?

What's the line?

Steve Bonhag, 37, has a new

job. He has been appointed UK

sales manager for Network

Appliance, the California supplier

of dedicated NFS data access

servers which, with a throughput

of 1143 NFS operations at 10ms/sec

access times, are claimed to be the

world's fastest network file

server.

Perhaps Observer's just behind

the times, but even after ringing

the company up asking, we're still

not sure what Steve's trying to sell.

100 years ago

Yankees close at the worst.

Apprehension as to the possible

outcome of the Venezuelan affair

continues to be the predominant

factor on the Stock Exchange.

As it is seen that the people of

the United States are taking the

President's rhinoceros made

seriously, it is recognised that

what was originally a huge joke

in the worst taste may have

been a serious ground of quarrel

if the hellish conflict had been

in a day or two, for a nation that

has not yet had will fight over

the most trifling point.

Markets open in all round

and although the business doing

was only small, it was all selling

American paper is now being

despatched rapidly in view of

possibilities.

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Yankees close at the worst.

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## Poll success may spur obstruction of legislation Communists eye a third of seats in Russian Duma

By John Thornhill and  
Chrysalis Freeland in Moscow

The Communist party strengthened its grip on the Russian parliament yesterday when election results showed it had done unexpectedly well in single-member constituencies which account for half the seats in the 450-strong lower house of Duma.

The Communists, who won almost 22 per cent of the popular vote in Sunday's parliamentary election, are now likely to secure about one-third of the seats in the lower chamber under Russia's complex electoral rules.

The will not enable the Communists to build a permanent working majority to frustrate the government, but they could forge temporary voting alliances to obstruct specific pieces of legislation.

Mr Vladimir Zhirinovsky, leader of the ultra-nationalist Liberal Democratic party of Russia, which came second with 11 per cent of the vote, said he would not form an electoral bloc with the Communists and would run an independent campaign for presidential elections in June.

Mr Victor Chernomyrdin, the

prime minister, whose Our Home is Russia party came third yesterday met President Boris Yeltsin and ruled out any sweeping changes to the composition of the government.

The government's position was bolstered when the upper house of parliament gave final approval to a tough draft budget for next year. The lower house had already backed the budget before the elections.

Chernomyrdin inflation pledge Page 2  
After the dress rehearsal — Page 11

But Mr Grigory Yavlinsky, leader of the liberal Yabloko faction, the fourth party to have won more than 5 per cent of the votes, said he would oppose the government unless it changed its stringent economic policy.

The government's failure to pay wages and pensions on time and the fall in living standards had created a potential breeding ground for mass protest, he said.

With 185 of the 225 single-member constituencies declared, the Communists have won 49 seats and the closely allied Agrarian party has taken 19. Our Home is

Russia and Yabloko are far weaker, with only 10 seats apiece.

The Communists are also likely to gain a further 97 of the 225 seats allocated by proportional representation, although the figure will be diluted if other parties pass the 5 per cent minimum needed for representation.

The final shape of the parliament may not be determined until next year when the 60 candidates so far elected on independent platforms make their voting allegiances clear.

The slowness of the central bank's commission in counting the 650 votes cast has raised concerns about fraud. But international observers have found nothing seriously amiss.

By last night, four parties had escaped to 5 per cent of the vote — Women of Russia, a pro-government party with 4.7 per cent; Communists for the Soviet Union, a hard-line leftwing party with 4.6 per cent; the Russia's Choice, a reformist party with 4.4 per cent; and the Congress of Russian Communities, a moderate nationalist party with 4.2 per cent.

See Lex

## Police question Bouygues chief in corruption probe

By Andrew Jack in Paris

Mr Martin Bouygues, chairman of Bouygues, the French construction group, was yesterday questioned by police in the latest in a series of high-profile corporate investigations in France.

Officers also raided "Challenger", the group's modernistic headquarters office complex in Saint-Quentin-en-Yvelines, west of Paris.

The questioning of Mr Bouygues at the offices of the judicial police in Nanterre, near Paris, was linked to a corruption investigation co-ordinated by Judge Philippe Courroye, based in Lyons.

The inquiry is believed to be connected to Judge Courroye's investigation, opened in 1994, concerning receipt and misuse of corporate funds, centred on alleged payments to Swiss bank accounts by number of large French companies.

Mr Courroye has already interrogated Mr Pierre Botton, a Lyons businessman, and son-in-law of Mr Michel Noir, the

former mayor of the city, over the affair.

Mr Botton, Mr Noir and a number of other public figures were convicted on corruption charges this summer, but are appealing against the verdict.

The activities of a number of leading French companies, including Alcatel Alsthom, Lyonnaise des Eaux and Générale des Eaux, have been investigated by magistrates in the last two years.

Mr Bouygues apparently escaped attention initially, but in recent months at least five of the group's managers have been placed under investigation in connection with a range of different inquiries.

Judge Yves Madre is examining allegations made by Mr Phan Van Cuan, an engineer sacked by the group in 1993, that it had developed "Drapo", a computer software program designed to tap into its competitors' systems to discover how much they were bidding in public works tenders.

Police visited Bouygues' headquarters in July in relation to the Drapo inquiry and attempted to

see Mr Bouygues, but since he was overseas, they were met by Mr Pierre Richard, deputy chairman, who has been placed under formal investigation along with four other managers.

In another investigation, Mr Patrick Le Lay, managing director of Bouygues Télécom, and Mr Philippe Renaud, group treasurer, were placed under formal investigation this month by Judge Jean-Marie Charpier over allegations of false billing in the construction market in the Paris region.

Separately, Mr Patrick Le Lay, head of TFI, the leading private television company, was held overnight in police custody in November in relation to allegations that the station paid FF10m (£9m) in bribes in 1990 in order to retain its exclusive rights to broadcast the official state lottery results. Mr Le Lay is a director of Bouygues, the controlling shareholder in TFI.

Bouygues' share price fell FF19 before recovering to close FF14 lower on the day at FF490.

The difficulty arises in defining "normal" fluctuation margins provided for by the exchange rate mechanism of the European monetary system, for at least two years, without deviating against the currency of any other member state.

The Commission remained

relatively ambiguous yesterday, citing Article 109 of the Maastricht

treaty which lays down targets for inflation, budget deficits, accumulated debt and exchange rate stability.

The article calls for "the observance of the normal fluctuation

margins provided for by the exchange rate mechanism of the European monetary system, for at least two years, without deviating against the currency of any other member state".

The difficulty arises in defining "normal" fluctuation margins provided for by the exchange rate mechanism of the European monetary system, for at least two years, without deviating against the currency of any other member state".

For the Commission to argue in favour of ERM membership could trigger speculation against currencies outside the mechanism. It could look like putting pressure on the UK government before the next election, to be held at the latest by April 1997.

But to soft-pedal on the requirement of ERM membership might also draw criticism from countries such as Germany, which insist on strict interpretation of the treaty.

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## INTERNATIONAL COMPANIES AND FINANCE

## EUROPEAN NEWS DIGEST

## GE Capital, EBRD in Hungary move

GE Capital, the financial services arm of General Electric of the US, and the European Bank for Reconstruction and Development said yesterday they had reached agreement with the Hungarian government to purchase a majority stake in Budapest Bank, Hungary's fifth-largest commercial bank, for \$87m.

GE Capital will purchase a 27.5 per cent stake and will have operational control of the bank. The EBRD, which has now approved projects worth some Ecu1.05bn (\$821m) in Hungary, will take 32.5 per cent. The buyers also have an option to increase their stake by a further 22 per cent within five-and-a-half years. Budapest Bank has assets of Ft215bn (\$1.03bn) and 74 branches. The bank and the Hungarian government, which until yesterday's agreement held an 83.6 per cent stake, were advised jointly by Salomon Brothers and Lehman Brothers.

Virginia Marsh, Budapest

## Valeo shakes off earnings fears

Shares in Valeo fell yesterday amid market concerns about earnings at the French motor components group, but regained ground after the company maintained profit forecasts and said it was implementing a significant reorganisation aimed at improving competitiveness. After opening at FF1208.7, the company's shares plunged to a low of FF1194. However, the publication of a statement confirming predictions that net profits would be similar to the FF1990m (\$200.6m) achieved in 1994, prompted a rally which took shares to FF1205.5 at the close.

The volatility reflected uncertainty about the outlook for the automotive sector as a result of slowing economic growth in France and yesterday's gloomy market forecasts from Mr Jacques Calvet, the chairman of Peugeot Citroën. According to the group, planned capital expenditure will total FF12bn this year, compared with an estimated FF12.3bn last year.

John Riddings, Paris

## Hoechst details closures

Hoechst, the German chemicals group, yesterday named the sites it will close to eliminate 5,000 jobs worldwide in its drugs division. Management presented detailed restructuring plans to employees to explain its integration of Hoechst Marion. Merrill Dow and Rousell Uclaf. Sources close to the company said Hoechst Marion Rousell, Hoechst's drugs unit, planned to keep research at Frankfurt, Somerville in the US, Romania, France and Kawagoe, Japan but close six other centres. It also conducts research at sites in Italy, the UK and Australia. More than half of its 77 production sites would be closed by the end of 1996. Further analysis would be conducted to assess whether more sites would be shut down. Sites in Spain, Brazil, Argentina and the US are expected to be closed.

Reuter, Frankfurt

## Securitas expands in Germany

Securitas, Europe's leading security group, yesterday acquired DSW Security of Germany for SKr670m (\$101m). The deal, struck with the five private owners of DSW, will make the Swedish group the third-largest operator in its sector in Germany. DSW is expected to have sales of SKr1bn next year and pre-tax profits of SKr70m - adding to Securitas' existing German turnover of SKr500m. The acquisition was therefore struck at 1.5 times prospective sales and 9.5 times earnings.

Securitas said the purchase would increase group turnover this year by 14 per cent to SKr8.4bn on a pro-forma basis, with cash flow rising 10 per cent and profits inflated "slightly".

Hugh Carnegy, Stockholm

## Kvaerner retires to consider its position

By Hugh Carnegy in Stockholm

Kvaerner, the Norwegian shipbuilding and engineering group, will decide "in the first months of the year" what to do with its 20 per cent stake in Amec, the UK construction company it failed to acquire in a £360m (\$658.8m) hostile takeover bid, Mr Eric Tonseth, Kvaerner chief executive, said yesterday.

"Just now we are looking forward to the Christmas holiday," he said the morning after Amec defeated the Norwegian assault. "We may sell our shares or we may hold on to them. They could turn out to be an attractive investment - although that was not our original intention."

Kvaerner is left with an exposure to Amec of some 950m. It can afford to hold on to that for some time if it sees the prospect of a gain - either through Amec fulfilling the ambitious profits forecasts made during the defence, or if the UK group becomes a bid target once more.

But Amec's successful defence foiled Mr Tonseth's strategy of combining the UK group's big offshore construction and project engineering operations with those of Kvaerner, to widen the Norwegian group's international reach and balance its big shipbuilding interests.

Together, the two groups would have been the biggest manufacturer in the British and Norwegian North Sea offshore construction markets, with about a 30 per cent share.

But Kvaerner won only 10.5 per cent acceptances for its 100p a share offer on top of the shares it had bought in the open market.

Mr Tonseth insisted Kva-



Eric Tonseth: denied Kvaerner was left looking vulnerable

ner's overall strategic goals had not been undermined.

"This was an opportunity to make a big jump. We missed that opportunity, but we will continue to work to expand in

this [offshore] business."

He denied Kvaerner was left looking vulnerable because of its heavy dependence on the Norwegian sector, where investments are set to decline.

"We are involved in more bidding than ever. We make more money in offshore construction than Amec, Trafalgar House and McDermott [of the US] put together."

Nevertheless, Kvaerner faces a tough task persuading investors it is on the right track. The markets were already worried by recent losses in the big projects and falling margins in the shipbuilding industry before the bid for Amec was made. They reacted sceptically to that move, regarding it as a risky venture.

News of the bid's defeat did not reassure investors. Kvaerner B shares slid NKr6.00 yesterday to close at NKr159, well below the level of NKr216 they

stood at when the bid was made last month - which in turn was 30 per cent down over the year.

"It is important for Kvaerner to get shareholder confidence back. I think they will now work hard at that," said Mr Thomas Wold, analyst at Skandia Corporate in London.

The struggle with Amec was an unusual and uncomfortable experience for Kvaerner, unaccustomed to the most Scandinavian companies to hostile takeover battles. UK politicians and the Indonesian government - with which Amec has important contracts - lobbied against the deal.

But Mr Tonseth said he was upset only by the way in which forecasts of substantial profits increases in 1996 were made without official commitments by Amec. "There will be a lot of eyes following them on that issue," he declared.

## Polish bank stock makes its debut in London

By Christopher Bobinski in Warsaw

Bank Gdanski yesterday became Poland's first financial institution to have its stock quoted on the London Stock Exchange through Global Depository Receipts, at the close of its successful sale through the government's privatisation programme.

The GDRs were priced at \$9.95 on Sean International in London, compared with initial public offer prices of \$9.48 and 24.25cts paid by foreign and domestic investors respectively. The stock makes its debut on the Warsaw bourse tomorrow.

Bank Gdanski is the fourth of Poland's nine regional commercial banks to be privatised. The sale, in which HSBC Investments acted as the adviser to the government, was rescinded from weak local demand by Bank IG, a small, private, Warsaw-based bank, which took a 24.07 per cent share of the bank's equity.

Bank IG, which largely provides corporate banking services, is now poised to forge a strategic alliance with the BG, whose retail branch network dominates northern Poland.

The foreign branch, which amounts to 26 per cent of BG's equity, was underwritten by a consortium co-managed by HSBC and Daiwa Europe, with Schroders and Creditanstalt acting as co-leaders and SBC Warburg, MC Securities and Deutsche Morgan Grenfell in a supporting role.

Other institutions and small investors took up 2.3m shares, or 12 per cent of the equity. The sale sets the stage for the privatisation next year of Warsaw-based Powszechny Bank Kredytowy.

The BG sale was overshadowed by a controversial government decision to hand a residual treasury-owned 46 per cent share in privately-owned Bank Przemysłowo Handlowy to state-owned Bank Handlowy without consulting the European Bank for Reconstruction and Development or ING of the Netherlands, which hold substantial minority stakes in the bank.

## An approach that broke with usual practice

By Nicholas Denton, Andrew Taylor and Hugh Carnegy

Mr Brian Keelan, the SBC Warburg corporate financier, likes to start each deal with a genuinely blank sheet of paper. Sometimes fresh thinking works. Mr Keelan and the SBC Warburg team helped Southern Company of the US buy SBC Warburg in the cheapest acquisition of any UK regional electricity company.

SBC Warburg's advice to Kvaerner, the Norwegian shipping group, has proved less successful. Kvaerner's £360m bid for Amec, the UK construction company, failed by a wide margin.

Mr Keelan's blank sheet produced a "first and final" bid. Institutions were

given just 21 days to reply. It broke with the UK's usual practice: bidders generally leave themselves room to increase offers and the takeover battle lasts 60 days.

Institutions felt the price of 100p a share was too low after some brokers increased their profits forecasts to £25m for 1996. SBC Warburg executives could find no other reason for their defeat.

SBC Warburg's complaint to the takeover panel about the private analyst briefings led to the resignation of Financial Dynamics as Amec's public relations adviser. But it failed to discredit expectations of higher profits.

The defence, by NatWest Markets, acting as financial adviser, and Financial

Dynamics, proved effective.

More intriguing was institutions' discontent about being "railroaded". One large shareholder told SBC Warburg, before Kvaerner's raid was launched, that the 21-day timetable would make no difference. But another institution said: "We considered the tactics a little arrogant. Institutions do not like being told to accept a price, or else."

SBC Warburg, in breaking with usual practice, was following the preference of its client. Mr Eric Tonseth, chief executive of Kvaerner, wanted the affair settled quickly. That brisk approach meshed with Mr Keelan's own impatience with the traditional way takeovers are conducted in the City. "It

is apparently shocking to some shareholders - if not institutions - to dispense with the 60 days' dance of the seven veils," Mr Keelan said.

Rival investment bankers say unusual strategies are in character for Mr Keelan, who also advised Trafalgar House on its controversial and unsuccessful bid for Northern Electric. A competitor is dismissive. "The record speaks for itself. Working from first principles has not always paid off."

Mr Keelan says that if he is regarded as a revolutionary, it is only because he starts with a blank sheet. Conservative UK institutions may have been less disturbed if SBC Warburg had done it by the book.

## Deutsche Bank to change accounting standards

By Andrew Fisher in Frankfurt and Jim Kelly in London

Deutsche Bank will become the first German bank to make its performance fully comparable with other global financial institutions, by producing its accounts along Anglo-Saxon lines in accord with international accounting standards (IAS).

Germany's largest bank said yesterday it aimed to provide a better insight into its business development and financial results. "We shall satisfy

worldwide calls for greater transparency and for company information of a higher quality," said Mr Jürgen Krumnow, a Deutsche Bank director.

Sir Bryan Carsberg, chairman of the London-based International Accounting Standards Committee said: "This is very good news. We have been making progress in Germany recently but this confirms the accelerating trend towards IAS."

IBCA, the European credit rating agency, also welcomed the move, calling it a significant

break with the past. It expects other German banks to follow suit.

Deutsche Bank's 1995 results, to be published in March, will be its first to be drawn up on IAS principles.

However, to comply with German law, it will also produce results in line with the German commercial code (HGB), which takes greater account of creditors' rather than shareholders' interests.

One big change under IAS will be the disappearance of

hidden reserves, made to strengthen the balance sheet and reduce the tax bill.

"It's a good move and should be welcomed," said Mr Stephan Lewis, European banking analyst at Union Bank of Switzerland. He said the absence of hidden reserves would lift overall profits.

Banks' risk provisions will also be made clearer through IAS. Deutsche will no longer offset loan loss provisions against profits on securities in the liquidity reserve. "This should give a much clearer

picture of credit quality," Mr Lewis added.

Mr Krumnow, the German representative on the IAS Committee said: "Shareholders and providers of debt capital, financial analysts and the general public will all have an instrument at hand that permits comparison with other global banks."

Deutsche's decision to adopt IAS follows progress towards the standard by such German industrial companies as Heidelberg Zement, Schering and Bayer.



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## A Few of the Topics and Speakers

Putting Africa in the Context of the World Mining Market  
Scramble for Africa: Shopping in Elephant Country  
Significance of Mining to the Economies of Africa  
More Than a Metal Exporter? The Trends to Mineral Beneficiation in Southern Africa

The Role of Mining Companies as Surrogate Governments

Craig Andrews, Senior Mining Specialist, The World Bank  
David Drummund, Analyst, Societe Generale Strauss Turnbull Securities  
Peter Miller, Mining Analyst, Yorkton Securities  
Andrew Quinn, Director, James Capel & Co.  
Michael Spriggs, Mining Analyst, SBC Warburg  
Dennis Tucker, Mining Analyst, South African Gold Mines, Fleming Martin  
Michael Wuth, Director, Rice Rinaldi Turner & Co.

The Mine Ministers of the following Countries have confirmed their attendance:

|                          |            |              |           |
|--------------------------|------------|--------------|-----------|
| Angola                   | Eritrea    | Mozambique   | Swaziland |
| Burkina Faso             | Ghana      | Namibia      | Tanzania  |
| Cameroon                 | Guinea     | Niger        | Uganda    |
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## 6,900,000 Shares

NSI Neuromedical Systems, Inc.

## Common Stock

(per value \$0.0001 per share)

## 1,380,000 Shares

This portion of the offering was offered outside the United States by the undersigned.

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Polish bank stock makes its debut in London  
By Christopher Bollin  
in Warsaw

Bank Gdanski has become Poland's first institution to have its shares quoted on the London Stock Exchange through a depositary receipt, a close of its internationalisation programme. The GDRs were 89.95 in New York, London compared with 21.20 paid by domestic investors. The stock debut on the Warsaw Stock Exchange tomorrow.

Bank IG is the fourth of nine regional state banks to be privatised, in which investments acted as the government's stake from weak local debts. Bank IG, a small Warsaw-based bank, took a 21.07 per cent in the bank's equity.

Bank IG, which has video corporate services, is now poised to make a strategic alliance with a local retail bank to dominate northern Poland.

The foreign stake amounts to 25 per cent equity, was underway in a consortium of HSBC and Dresdner KfW, Schröders and Credit Suisse as co-leads in Warburg, MC Securities Deutsche Morgan Grenfell's other institutional investors took up the 12 per cent of the bank. The sale sets the stage for privatisation next year.

Bank IG was owned by a government pension fund, a residual treasury investment share in private.

Bank Przemyslowe is state-owned but wholly without major European Bank for Reconstruction and Development of the Netherlands hold substantial stakes in the bank.

# Lingering death of AEG a lesson in mismanagement

Strategic errors and bad luck led to the demise of one of Germany's greatest industrial groups, says Wolfgang Münchau

AEG is being dismantled piece by piece. One AEG source said: "Emil Rathenau worked on the basis of study groups for new business areas. One of them built high-speed trains as early as 1903, with engines capable of running at 200km/h, to test whether they could build a high-speed rail network. They decided they could not do it, so the project was shelved."

AEG's history is one of breathtaking inventions, combined with poor financial and management decisions. In the early 1920s, when a large section of war-wracked German industry renewed itself with cheap and rapidly depreciating money, AEG failed to invest, leaving it until after hyperinflation had ended - a decision which proved very expensive.

After the second world war, AEG was also unlucky. About 90 per cent of its factories were in eastern Germany. While only a small part of its manufacturing facilities were physically destroyed in the war, the company lost almost all its production, including its foreign operations.

The company had to start almost from scratch, rebuilding itself around its western German sales and distribution offices.

Nevertheless, the 1950s were the golden years for AEG, a period when demand outstripped the company's capacity to supply, and when business judgment was reduced to a series of logistical decisions.

But in the late 1950s, the problems began to pile up. AEG took a series of ill-fated strategic decisions: it picked mainframe computers and nuclear energy as two core businesses. And in the late 1960s, there was uncontrolled expansion into consumer goods, as AEG bought up one household goods manufacturer after another.

At its peak in the 1960s, AEG employed 171,000 staff, its largest peace-time workforce.

During the second world war, when AEG switched to military production, the workforce had reached 200,000. Today, the

## Diverging fortunes in German electronics



| PERIOD              | TURNOVER<br>DM BN | NET PROFIT<br>DM M | AEG           | TURNOVER<br>DM BN | NET PROFIT/LOSS<br>DM M |
|---------------------|-------------------|--------------------|---------------|-------------------|-------------------------|
| 1970                | 18.9              | 458                | 1975          | 122.4             | -77                     |
| 1975                | 20.7              | 506                | 1976          | 194.7             | 367                     |
| 1977                | 26.2              | 650                | 1977          | 142.9             | 8                       |
| 1978                | 26.0              | 721                | 1978          | 140.9             | -347                    |
| 1979                | 26.0              | 682                | 1979          | 142.1             | -985                    |
| 1980                | 21.9              | 553                | 1980          | 144.0             | -247                    |
| 1981                | 34.5              | 559                | 1981          | 146.4             | 24                      |
| 1982                | 40.1              | 738                | 1982          | 122.8             | -85                     |
| 1983                | 38.5              | 802                | 1983          | 115.3             | 37                      |
| 1984                | 45.8              | 1,066              | 1984          | 110.2             | 306                     |
| 1985                | 54.8              | 1,526              | 1985          | 108.4             | 0                       |
| 1986                | 47.0              | 1,474              | 1986          | 112.2             | 0                       |
| 1987                | 51.4              | 1,275              | 1987          | 116.6             | 0                       |
| 1988                | 59.4              | 1,391              | 1988          | 133.8             | 27                      |
| 1989                | 61.1              | 1,577              | 1989          | 122.4             | 275                     |
| 1990                | 63.2              | 1,668              | 1990          | 131.5             | -205                    |
| 1991                | 73.0              | 1,722              | 1991          | 140.0             | -824                    |
| 1992                | 78.5              | 1,955              | 1992          | 116.0             | 10                      |
| 1993                | 81.6              | 1,982              | 1993          | 110.0             | -1,160                  |
| 1994                | 84.6              | 1,993              | 1994          | 102.9             | -357                    |
| 1995 year to Sep 30 | 88.8              | 2,084              | 1995 forecast | 110.0             | -1,300                  |

Source: Comptech

company employs fewer than 50,000 people.

From the 1970s onwards, AEG's financial performance deteriorated rapidly. An accident at a nuclear power plant resulted in the company's nuclear prospects disappearing almost overnight. AEG was considered to have picked the wrong technology. The group sold for fewer mainframe computers than expected.

At the global economy was hit by the oil shock in

1973, AEG tumbled into loss. It caused a public uproar when it resorted to selling assets to pay the dividend, an almost unprecedented move for a German company.

Despite a capital restructuring in 1979, the company's fortunes did not revive. The extra capital was swallowed up almost entirely by the servicing of the company's debt.

The move was part of a strategy to diversify so Daimler-Benz could become an "integrated technology concern", an expression that has become something of a bad joke within the company.

That strategy, now judged by many to be one of the most catastrophic failures in post-war German industry, has since been reformulated. Daimler-Benz now regards itself as a transportation group, one that makes cars, trains and aircraft. There is no longer a place for a business such as AEG, which at one stage produced refrigerators, nuclear power stations and typewriters.

Moreover, although AEG restructuring itself financially, the group did not sufficiently restructure itself commercially, at least not immediately. The business was lulled into a false sense of security by the strong economic growth of the mid-to-late 1980s.

Yesterday AEG concluded negotiations to sell its industrial automation and energy divisions. Units for which AEG finds no buyers and which are considered non-core will be closed.

The mood at AEG's headquarters is, unsurprisingly, depressed, although the company insists many employees will find alternative employment, either within Daimler-Benz or at one of the companies that are buying parts of AEG. Nevertheless, AEG's work council estimates that about 10,000 jobs are likely to disappear.

"After the work was done, they sat back and said 'we've done it'. And then they hurried back to the good old days, which is normal in times like these. It is always difficult to say to people, 'you did it, you did it well, and now you've got to continue'."

The group remained an unwieldy and unfocused conglomerate. It failed to concentrate on its areas of excellence which offered long-term profitability, such as electronic components and transport systems. Instead, resources were diverted away from energy equipment and white goods, which in the high-growth environment of the late 1980s seemed to have good prospects.

Mr Roland Berger, the chairman of Roland Berger, a business consultancy, says: "AEG made several difficult management errors. The biggest mistake was the desire to compete with Siemens in every sector.

Then came Daimler-Benz, and with it the prospect of a more solid capital base. But Daimler-Benz's ownership of AEG since 1985 has proved a disaster.

Poor financial management, combined with lax cost control,

compounded the group's problems. By the early 1990s, AEG's failure to rationalise resulted in persistent and mounting losses. This year, the business is expected to lose DM1.3bn.

## Old rival finds the winning formula

On the surface, AEG and Siemens have much in common. Both have a record of innovation and a reputation for long-term thinking; at moments in their history they have manufactured almost the entire product range of electrical and electronic products. Yet despite their similarities, AEG failed and Siemens succeeded. And while AEG is in the process of disintegration, Siemens appears healthier than at any time in its history. Last financial year, Siemens' net profits rose 26 per cent to DM2.1bn (\$1.5bn), and it expects similar profits growth this year.

Mr Roland Berger, a business consultant, says that unlike AEG, "Siemens had a traditional family structure, cemented by special voting rights for family shareholders who do not think merely in five-year periods. If they say we need an information technology division, then they buy one and they stick with it. Such thinking has always been typical Siemens culture."

The company dates back to 1847 when Werner von Siemens co-founded the Siemens & Halske telegraph company to build the first telegraph line between Berlin and the parliament in Frankfurt. In 1883, his company installed the first electric street lights in Berlin, and, like AEG, started producing light bulbs.

More recently, Siemens benefited from a steady flow of income from its position as a quasi-monopoly supplier of telecoms equipment and power plants in Germany.

The group demonstrated its flexibility in the 1980s, when competition intensified and Siemens refocused on its current divisions: telecoms, energy, components, computers, medical technology and transport systems.

Almost all of its businesses units are now profitable. Probably Siemens' greatest success in recent years has been the investment in semiconductors. The division is the single largest contributor to profits.

Wolfgang Münchau

All of these securities having been sold, this announcement appears as a matter of record only.

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December 1995

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The Coupon Amount payable on the relevant Interest Payment Date, June 20, 1996 will be US\$ 1,492.23 per Receipt, relating to a Deposit of US\$ 50,000 and US\$ 7,468.15 per Receipt relating to a Deposit of US\$ 250,000.

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established to hold Partnership Notes Guaranteed as to Payment of Principal and Interest by the Overseas Private Investment Corporation

TIPF Investment Management Limited, Mauritius, serves as investment manager of the fund.

Pathfinder Investment Company Private Limited, Pune, an Indian private equity management company, serves as Indian Advisor to the fund.

Affiliates of Oppenheimer &amp; Co., Inc. and The Chase Manhattan Bank, N.A. have established a joint venture to serve as general partner of the fund.

The undersigned has acted as financial advisor in connection with the organization of the fund, which will make direct investments in India.

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New York, Atlanta, Boston, Chicago, Fort Lauderdale, Houston,  
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Muirfield Funding Limited  
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(the "Notes")

NOTICE IS HEREBY GIVEN to the holders of the Series G Notes that by virtue of the early redemption of the floating rate notes corresponding to and securing the Notes (the "FRNs") the Company is obliged pursuant to the provisions of the Indenture constituting the Notes to redeem the remaining Notes on 3rd January, 1996.

Interest on the principal of the Notes will accrue to the date of redemption of the FRNs and will be paid to Noteholders together with such income.

Bankers Trust  
Company, London  
20th December, 1995

Agent Bank

YEN 15,000,000,000

AKTIEBOLAGET  
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Interest Period December 19, 1995  
March 19, 1996Interest Amount due on  
March 19, 1996 per  
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1

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7

1

1995 11/16 1.50

## INTERNATIONAL COMPANIES AND FINANCE

## ASIA-PACIFIC NEWS DIGEST

Sanwa and Dai-Ichi  
to open trust banks

Two more Japanese banks received approval yesterday from the finance ministry to open trust banking businesses. Sanwa Bank and Dai-Ichi Kangyo Bank will open trust bank subsidiaries next year. They will join Bank of Tokyo and Tokai Bank, which have already received approval for similar subsidiaries, and a number of other banks which are expected to be given the green light in the next few months.

Japanese banks have in the past been subject to rigorous demeritation rules. The activities of 10 of the 11 city banks - the main nationwide commercial banks - have until recently been tightly circumscribed by the regulators. But in the last few years, the gradual deregulation of financial markets has allowed banks to enter other businesses, notably securities, and now trust banking.

The new competition is likely to make life more difficult for the existing trust banks, which have until now enjoyed a banking monopoly in the lucrative management of pension funds and loan trusts.

Gerard Baker, Tokyo

**Kobe Steel, Alcoa acquire mill**

Kobe Steel of Japan and Alcoa of the US are to acquire Comalco's Yennara rolling mill in New South Wales through their recently formed joint venture, KAAL Australia. Comalco, the Australian integrated aluminium producer, said the sale was expected to result in a loss of about A\$10m (US\$7.4m) after tax. No other financial details were released.

The sale of this business to KAAL Australia is in line with Comalco's strategy of concentrating on its upstream activities of mining, refining and smelting," Mr Terry Palmer, Comalco's chief executive, said.

KAAL Australia will also acquire an option to purchase certain land and buildings at the Yennara site. The sale, which is expected to be completed by the end of the month, is subject to regulatory approvals.

Reuter, Melbourne

## Toyota registers fall in output

There were mixed reports yesterday on vehicle production figures from two of Japan's carmakers. Toyota Motor, the country's largest, said domestic vehicle production in November fell 11.2 per cent from a year earlier to 277,194 vehicles. Export vehicles dropped 16.3 per cent year-on-year to 106,425 vehicles.

Separately, Toyota said its Toyota Team Europe (TTE) would not take part in the World Rally Championships until 1998. Last month, TTE was disqualified from the world rallying championship by the International Motor Sport Federation for using illegal turbo restrictors in the Catalonia Rally in Spain in October.

Nissan said its domestic vehicle production in November rose 7.6 per cent from a year earlier to 143,448 vehicles. The company, Japan's second largest carmaker, said its November vehicle exports dropped 19.1 per cent year-on-year to 43,013 vehicles.

Reuter, Tokyo

## Post Publishing sells Thai stake

Post Publishing, owner of the Bangkok Post, said it agreed to sell its 9.42 per cent stake in Thai-language sister paper Siam Post for Bt95,000 (US\$3,776). Post Publishing said it decided to sell 9.42% Siam Post shares to Tritos Three-Generation but retained an option to buy back up to 45 per cent of Siam Post when it had accumulated an estimated Bt100m loss since its debut in August 1992.

Reuter, Bangkok

The company's move into Vietnam is through a joint venture with Construction Co, a company owned by Vietnamese military officers.

It will require an initial

## LG believed to have won

## controlling stake in Dacom

By John Burton  
in Seoul

The LG group, one of South Korea's biggest conglomerates, yesterday appeared to have won a controlling stake in Dacom, a leading domestic telecoms company.

The telecoms business is becoming the newest arena for competition among Korean conglomerates, or *chaebol*, as the government deregulates the sector.

The bidding price of Won280,100 a share was more than double the price of publicly-traded Dacom shares.

LG now controls 12.39 per cent of Dacom, although some analysts estimate it actually holds a 27 per cent stake in the company through share purchases by business allies.

Dacom is the biggest competitor to state-run Korea Telecom, with international call services and the start of domestic long-distance operations from next month.

The *chaebol* see synergy benefits in acquiring telecom operators since most of the industrial groups manufacture

telecommunications equipment. LG, for example, produces telephone switching systems and fibre-optic cables.

LG, the country's third-biggest *chaebol*, became Dacom's largest shareholder by buying a 9.84 per cent stake for Won362bn (US\$69m) from the state-run Korea Long-term Credit Bank in a public auction. The bidding price of Won280,100 a share was more than double the price of publicly-traded Dacom shares.

The *chaebol* are also expected to compete for shares in Korea Telecom when it is listed on the Seoul stock exchange next year.

Korea's two cellular phone operators are already owned by industrial groups. Korea Mobile Telecom is controlled by Sunkyoung Shinsegae, which will start operations early next year, is owned by Pohang Iron & Steel and the Kolon textile group.

**Danish group in Vietnam move**

By Ted Barakat in Bangkok

Christiansen & Nielsen, the Danish civil engineering company taken over by its Thai subsidiary in 1992, announced it had won two contracts in Vietnam, a boost to Asian operations that are financing continuing losses in Europe and emerging problems in Thailand.

The joint venture already has two contracts in Vietnam worth a combined \$35m, the company said in a filing to the Stock Exchange of Thailand. Both projects are due to be completed by the end of 1997.

The additions to the company's Asian order backlog was welcomed as problems in Europe continue in spite of an ongoing restructuring programme instituted in 1993.

Third-quarter losses for European operations were

\$2.1m, an encouraging figure considering it made nine-month losses in Europe totalling \$18.7m. In the third quarter, only the group's UK and investment arms showed profits, of \$600,000 and \$1.2m respectively.

In Asia, excluding Thailand, the company lost \$2m in the third quarter, wiping out first-half Asian profits of \$1.6m.

In Thailand, third-quarter losses were \$7.8m, cancelling out first-half profits of \$7.1m.

The company is said to be considering a rights issue to raise \$23m.

## Tubemakers spurns Broken Hill bid

The A\$833m (US\$432m) bid by Broken Hill Proprietary to buy 51.5 per cent of Tubemakers it does not already own, was yesterday described as unwelcome and unacceptable by the target company's managing director designate, Reuter reports from Sydney.

Mr Robert Every said the heavy engineering group

would prefer to remain independent. The Tubemakers' board had five independent directors against a total of four from BHP and the Japanese Sumitomo group, he said.

Sumitomo has indicated it would accept the BHP bid for its own stake of 19.3 per cent.

Mr Every's comments came after the release of a statement

by the independent directors of Tubemakers in which they said BHP's offer of A\$4.05 a share was inadequate.

Tubemakers' sub-committee of independent directors would meet today and would then appoint an independent expert to evaluate the bid, he said.

Tubemakers shares closed at A\$4.05, up 45 cents on the day.

**Changes to the FT/S&P Actuaries World Indices**

The FT/S&P Actuaries World Index Policy Committee decided in principle at its quarterly meeting on December 8 that Indonesia and the Philippines should be added to the Indices during the first half of 1996. Provisional constituent lists for the two countries are given below.

The review of Indonesia was based on information taken on August 31 and the review of the Philippines on information taken on September 30.

Subsequent market events will be taken into account by the committee at the March meeting, when a final decision on their inclusion will be taken.

Indonesia (investable weightings all 49 per cent except where stated): Astra International (Industry Sub-sector 572); Bank Dagang Nasional (572); Bank Danamon (112); Bank Inti. Indonesia (112); Bimantara Citra Tiga Asia (112); Bimantara Citra (474); Ciputra Development (161); Citra Marja (304); Gajah Tunggal (574); Gundang Garan (475); H M Sampoerna (15 per cent - 425); Indocement Tunggal Perkasa (183 per cent - 511); Indonesian Satellite Corp. (Indosat) (223); Indramayu Syntex (412); Jakarta Int'l Hotel (464); Kalbe Farma (431); Kawasan Industri Jababeka (161); Lippo (112); Land Development (161); Mayora Indah (451); Modern Photo Film (463); Panin Bank (112); Semen Gresik (611); Sinar Mas Multiartha (121); Tiwi Kimia (632); United Tractors (564).

Philippines: Abolitz (investable weightings 40 per cent - 171); Ayala Corp. B (100 per cent - 171); Ayala Corp. B (100 per cent - 171); Land B (112); Southeast Asia Cement Hds. (40 per cent - 171); Universal Robina (40 per cent - 451).

Following a full review of the Hong Kong market, the following changes will be made on January 1 1996 (L after a stock indicates it will be added to the Large Cap Index. M-S indicates it will be added to the Medium-Small Cap Index): Additions: (all M-S): Nat. Mutual Asia (151); First Pacific (171); Dao Heng Bank (112); Shangri-La Asia (464); CDL Holdings (551); Chen Hsung Hds (566).

Deletions: Lane Crawford Int. A (495); Playmats Property (161); Playmats Toys (482).

The Committee also agreed the following constituent changes to take effect on January 1 1996.

France: Addition: Pechiney (M-S - 672); Deletion: Pechiney

All inquiries should be made to Debbie Jackson, FT Information, Edinburgh, on 031-220-3933; Barbara Mueller, Goldman, Sachs & Co., New York, on 212-902-5777; or Elliott Shurkin, Standard & Poor's, New York, on 212-203-3707.

**AUSTRIAN SCHILLING (ATS) 5,000,000,000**

December 20, 1995

This announcement appears as a matter of record only

**Republic of Austria**

ATB's Austrian Treasury Bills 1995/2

Maturity six months

This issue was entirely purchased by

**P.S.K.** Österreichische Postsparkasse

Arranger

**P.S.K.** Treasury & Capital Markets

Total outstanding volume of ATB's 1-3

ATS 15,000,000,000

Salomon Brothers Inc

CS First Boston

Lehman Brothers

Merrill Lynch & Co.



JCI Limited



Registration number 65 088881 06

## GOLD MINING COMPANIES' DIVIDENDS

(All companies incorporated in the Republic of South Africa)

The Randfontein Estates Gold Mining Company, Witwatersrand, Limited

Registration number 01 00251 06 ("Randfontein")

## INTERIM DIVIDEND NO. 121

The directors of Randfontein have declared an interim dividend of 55 cents per share to shareholders registered at the close of business of Friday, 5 January 1996. The register will be closed from 6 January 1996 to 12 January 1996, both dates inclusive. Currency conversion for payments from London will take place on 15 January 1996 and payment will be made on 30 January 1996.

This dividend is payable subject to the customary conditions which may be inspected at or obtained from Randfontein's Johannesburg office or from the London Secretaries. Holders of share warrants to bearer issued by Randfontein are informed that payment of the above dividend will be made on or after 30 January 1996 upon surrender of coupon No. 124 to Barclays Bank Plc, Barclays Global Securities Services, 8 Angel Court, Throgmorton Street, London EC2R 7HT. Coupons must be listed on forms obtainable from Barclays Bank Plc and deposited for examination on any weekday (Saturday excepted) at least seven clear days before payment is required.

## Western Areas Gold Mining Company Limited

Registration number 59 02209 06 ("Western Areas" or "the Company")

## CAPITALISATION SHARE AWARD - RIGHT OF ELECTION TO RECEIVE INSTEAD AN INTERIM DIVIDEND (NO. 48) AND TO SUBSCRIBE FOR NEW SHARES - OFFER TO ACQUIRE NEW SHARES

The directors of Western Areas have resolved to award capitalisation shares ("the Capitalisation Award"), to shareholders registered at the close of business on Friday, 5 January 1996 ("the Record Date"). Shareholders may elect instead to receive an interim dividend of 40 cents per share. Shareholders making this election will then be given the opportunity to apply the dividend in subscribing for new ordinary shares in the Company ("the Subscription"). In addition, JCI Limited will offer to acquire from shareholders any new ordinary shares received in terms of the Capitalisation Award and the Subscription.

Shareholders receiving the Capitalisation Award or electing the Subscription will be issued new ordinary shares in Western Areas. The number of new shares to be awarded per share held on the Record Date will be determined as the ratio that 42 cents bears to the weighted average traded price of Western Areas shares on The Johannesburg Stock Exchange ("the JSE") on Thursday, 8 February 1996 ("the Calculated Price"). The total value, based on the Calculated Price, of the new shares that each shareholder will receive will be equivalent to 42 cents per share held on the Record Date.

JCI Limited has undertaken to provide a facility for shareholders receiving the Capitalisation Award or electing the Subscription to dispose of these new shares to JCI Limited at the Calculated Price. The effect of such a disposal will be the receipt of a cash payment of 42 cents per share held on the Record Date, which is 5% higher than the dividend of 40 cents per share.

The purpose of the Capitalisation Award and the Subscription is to enable Western Areas to retain funds in the company that will assist in financing the further exploitation of the South Deep section of the mine. The extent to which shareholders elect these two alternatives will influence the amount and timing of any future funding requirements.

The alternatives to the dividend, together with the undertaking by JCI Limited to acquire the new shares issued by Western Areas, provide shareholders with flexibility to select the alternative that best suits their tax circumstances and cash requirements.

The new ordinary shares to be issued pursuant to the Capitalisation Award will be issued as fully paid ordinary shares of R1 each by way of a capitalisation of part of Western Areas' share premium account and will rank pari passu in all respects with the Western Areas ordinary shares presently in issue. The issue of new shares will only be made to ordinary shareholders of Western Areas on the basis of whole shares. All fractions of new shares will be aggregated and sold for the benefit of the relevant shareholders. Subject to the approval of the JSE the new Western Areas shares to be issued will be listed on the JSE with effect from the commencement of business on Wednesday, 14 February 1996.

Documentation, which is subject to the approval of the JSE, containing the full details of the right of election will be posted to shareholders on or about Friday, 12 January 1996. The election period will be extended by 6 days from the customer three weeks to enable shareholders to receive, complete and return the election forms in time. The completed election forms must therefore reach the transfer secretaries by no later than 16h00 on Thursday, 8 February 1996. Should a valid election form not be timely received, capitalisation shares will be awarded.

The register will be closed from Saturday, 6 January 1996 to Friday, 12 January 1996, both dates inclusive. Currency conversion for payments from London will take place on 12 February 1996. It is expected that share certificates in respect of the new Western Areas ordinary shares and, if applicable, cheques in respect of the interim dividend and shares sold, will be posted to shareholders on or about Wednesday, 14 February 1996.

By order of the board:  
JCI Limited  
Secretaries  
Per: D Siewright  
Head and registered office:  
Consolidated Building  
Cnr. Fox and Harrison Streets  
Johannesburg 2001  
(P.O. Box 590, Johannesburg, 2000)  
London Secretaries:  
JCI (London) Limited  
6 St James's Place, London, SW1A 1NP

20 December 1995

## COMPANY NEWS: UK

## The end of an awful story

George Graham looks at the \$3.56bn sale of NatWest Bancorp

Foreign banks in the US have faced the same quandary as their American counterparts: how to respond to the wave of consolidation triggered by the steady erosion of regulatory barriers.

National Westminster Bank, which yesterday announced the sale of its US retail banking subsidiary to Fleet Financial in a deal valued at \$3.55bn has been no exception.

NatWest Bancorp had a relatively strong position in New York and New Jersey, but its prospects for future development had been thrown into question by the rapid consolidation of some of its biggest competitors.

The acquisitions of First Fidelity by First Union, and of Midland by PNC, together with the merger between Chase Manhattan and Chemical, left NatWest with steady erosion of regulatory barriers.

"Our belief is that we would have had to get very much bigger to have competed effectively," Mr Derek Wanless, NatWest's chief executive said yesterday as the deal closed.

"We didn't feel we could justify to shareholders making the sort of investment that would have been needed."

Looking at the full span since NatWest first bought into the US retail banking market in 1979, it is hard to justify the foray at all.

"The story of Bancorp over 16 years is an awful story for shareholders, and we have never hidden that," Mr Wanless says.

Over time, NatWest's return on its investment has barely exceeded 1 per cent, although Mr Wanless points out that

Bancorp's turnaround in the last four years has brought back some value to investors.

Few foreign banks can claim to have fared much better in the US banking market. The name of Crocker, Midland Bank's ill-fated and now divested acquisition, still makes strong British bankers blanch.

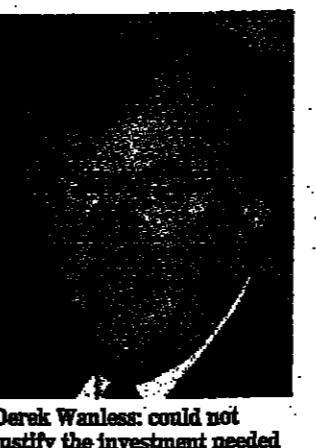
A study by Mr Daniel Nolle, an economist at the Office of the Comptroller of the Currency in the US, showed that foreign banks have, as a group, consistently produced a lower return on assets than their US counterparts for the last 10 years.

The only exception was 1987, when several large US banks made substantial provisions on their developing country debt exposure. "It would seem to come with the territory. It's more difficult to operate in a market that is not your home market," Mr Nolle said.

Of the European banks left in the US retail banking market, Royal Bank of Scotland, which earlier this week announced the merger of its Citizens Financial affiliate with Bank of Ireland's 1st New Hampshire and Allied Irish Banks, with its First Maryland Bancorp subsidiary, can lay claim to the most consistent returns on their investments.

HSSC's Marine Midland Bank in New York has shown strong profit growth in recent years, but stockbrokers still question whether the investment has proved to be good value for the group.

ABN Amro of the Netherlands is strongly placed with the 105 branches of the LaSalle group in the Chicago, but its



Derek Wanless: could not justify the investment needed

European-American Bank subsidiary in New York has a much less happy history. Some ABN Amro officials wonder whether they will be able to make the investments they need, but the group said yesterday that it regarded the US as a second home market.

These banks, too, must cope with a wave of mergers among their competitors that shows little sign of abating.

"The reason people are coming out now is the same reason NatWest has given: with consolidation going on you have a choice between expansion and sale. At the moment, returns on equity are attractive, but in the next downturn will they be as attractive?" says Mr Robert Lohman, a banking analyst at Lohman Brothers in London.

The deal values Bancorp at \$3.56bn, though NatWest will pocket only \$2.56bn of this in immediate cash - and Fleet Financial has the option to issue up to \$475m of common and preference stock as part of this payment. NatWest will also share Bancorp's profits

## NatWest Bancorp



Source: Company

Net income/loss (\$m)

1990 91 92 93 94 95

Source: Company

Net income/loss (\$m)

1990 91 92 93 94 95

Source: Company

Net income/loss (\$m)

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## COMMODITIES AND AGRICULTURE

## Setback for Fort in hotel disposal

By David Blackwell

Fort's plans to sell the Hart chain of hotels to a setback yesterday as financial backers of the group's preferred buyer out.

A deal to sell the management buy-out was widely expected to be concluded this week. One of the hotels is the most important part of the defence against a bid from Granada.

Fort's has argued a disposing of non-core run a tightly runned

The management team earlier this year supported the support of Australia's capital city. However, Fort's confirmed.

It is understood that seeking £120m for the 60 hotels, Japan is the price it has found the price it has still offered me.

Orville Leisure is part of its discussion with Forte. Mr Michael chairman, said yesterday talks "will continue" New Year, probably in the UK.

Mr Gerry Robinson, a director executive, denied Forte's claim, saying data now the time to potential buyers has under pressure from the company's affairs, for itself whether to resist the takeover. Granada, a High Court provisionally ruled yesterday John Mason.

Having clarified its responsibilities the judge ruled that the court's discretion is to support.

In a private letter, which has been voting rights High Court for about its legal地位 today after a Council is expected to support.

## Korea Zinc to build smelter and refinery in Townsville

By Kenneth Gooding, Mining Correspondent

Korea Zinc, biggest producer of the metal in South Korea, is to build an A\$500m smelter and refinery complex at Townsville in Queensland, Australia.

The complex will have the capacity to produce 170,000 tonnes of zinc a year and add more than 2 per cent to global refined zinc output when production starts in 1999. This capacity could double if the company decides to go ahead with an A\$800m expansion, starting in 2004.

The choice of Townsville, rather than Gladstone, also in Queensland, was announced yesterday only one month after Korea Zinc completed the acquisition of the Big River zinc smelter in Illinois from Big River Resources for US\$882.5m. The US smelter has

an annual capacity of 80,000 tonnes.

The group expects to produce about 250,000 tonnes of zinc in South Korea this year. Townsville was chosen because of its close proximity to raw materials. The complex is expected to obtain 70 per

LME WAREHOUSE STOCKS (in Monday's close)

Aluminium alloy 3,460 to 5,745

Copper 1,260 to 10,480

Lead 625 to 13,490

Zinc 3,023 to 5,720

Total 775 to 11,975

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Total 775 to 11,975

cent of its concentrate from the nearby Carpenteria/Mt Isa area.

The Queensland government is offering support via tax incentives, infrastructure support and "internationally competitive" electricity tariffs. The

complex will have the capacity to produce 170,000 tonnes of zinc a year and add more than 2 per cent to global refined zinc output when production starts in 1999. This capacity could double if the company decides to go ahead with an A\$800m expansion, starting in 2004.

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## AMERICAS NEWS DIGEST

## Xerox to restructure into three divisions

Xerox, the office products company, is to restructure into three divisions. These comprise production systems, taking in printing and publishing systems and professional services; office document products, or office copiers; and desktop products, taking in personal copiers and desktop printers.

Mr Peter van Cuylenberg, head of operations, is to leave the company. Xerox said this was because the re-organisation eliminated the level of management between the three new divisional heads and the chief executive, Mr Paul Allaire. Mr van Cuylenberg, who joined in 1983, will remain as a consultant. Recent changes to Xerox's operations include its withdrawal from the insurance business and the increase in its Rank Xerox stake from 51 per cent to 71 per cent.

Tony Jackson, New York

## Pembina in hostile bid for Mark

The frenetic pace of mergers and takeovers in Canada's oil and gas industry has continued with Pembina Resources of Calgary leading a C\$500m (US\$363m) hostile offer for Mark Resources.

The Pembina bid comes on the heels of a spate of proposed deals, with a total value of more than C\$2bn so far this month. Low North American oil and gas prices have made acquisitions more attractive than developing new wells.

Pembina Acquisition Corp, a consortium led by Pembina Resources, has offered C\$7 for each of Mark's 55m shares. Pembina would also take over about C\$135m in debt. The bid price represents an 18 per cent premium over Mark's market price in the past month. The consortium includes the Ontario teachers' pension fund.

Pembina is controlled by Alberta's Mannix family, which has widespread mining and energy interests in western Canada but keeps a low profile. Mark, which is widely-owned, rejected the Pembina offer as inadequate.

Bernard Simon, Toronto

## CP sells out of United Dominion

Canadian Pacific has sold its last block of shares in United Dominion Industries, a US-based engineering products group, as it completes its programme of disposals. CP is concentrating on transportation, energy, hotels and property. Proceeds of the sale of 10m UDI shares will go to retiring a 1992 CP debenture issue.

Robert Gibbons, Montreal

## Imasco disposes of fast food unit

Imasco, the financial services, tobacco and retailing group 40 per cent held by BAT Industries of the UK, is selling its loss-making Roy Rogers fast food unit in the US, closing one food processing plant and laying off 278 staff. A C\$25m (US\$18.25m) special charge will be taken in the fourth quarter, mostly to cover a write-down of Roy Rogers assets.

Imasco earned C\$39m in the first nine months this year, up 12 per cent from a year earlier. Imasco will concentrate on improving profitability at its Hardee's fast food chain with almost 3,500 outlets.

Robert Gibbons

## WORLD BOND PRICES

## BENCHMARK GOVERNMENT BONDS

|  | Coupon | Red Date | Price    | Day's change | Yield | Week app | Month app |
|--|--------|----------|----------|--------------|-------|----------|-----------|
| Australia  | 10.000 | 02/05    | 110.1000 | -0.10        | 6.48  | 8.22     | 8.02      |
| Austria  | 6.500  | 11/05    | 100.0000 | -0.00        | 6.50  | 6.93     | 6.79      |
| Belgium  | 6.500  | 02/05    | 98.2000  | -0.29        | 6.75  | 6.70     | 6.82      |
| Canada   | 8.750  | 12/05    | 100.3400 | -0.38        | 7.45  | 7.38     | 7.62      |
| Denmark  | 8.000  | 02/05    | 104.2000 | -0.64        | 7.39  | 7.32     | 7.65      |
| France   | 7.750  | 12/05    | 100.1000 | -0.10        | 7.55  | 5.97     | 6.33      |
| Germany  | 7.000  | 10/05    | 107.0700 | -0.12        | 7.55  | 6.82     | 7.12      |
| Germany Bund   | 6.500  | 02/05    | 102.6900 | -0.21        | 6.12  | 6.11     | 6.37      |
| Ireland  | 6.250  | 10/05    | 91.7500  | -0.55        | 7.56  | 7.46     | 7.69      |
| Italy  | 10.500 | 05/05    | 97.3500  | -0.36        | 10.95 | 10.88    | 11.33     |
| Japan  | 6.400  | 02/03    | 119.8720 | -0.370       | 1.42  | 1.29     | 1.63      |
| No 129   | 4.000  | 02/03    | 119.8720 | -0.370       | 1.42  | 1.29     | 1.63      |
| No 174   | 4.000  | 02/03    | 119.8720 | -0.370       | 1.42  | 1.29     | 1.63      |
| Netherlands  | 6.750  | 11/05    | 104.2200 | -0.280       | 6.16  | 6.13     | 6.37      |
| Portugal   | 11.675 | 02/03    | 110.7000 | -0.490       | 10.02 | 10.17    | 11.01     |
| Spain  | 10.150 | 01/06    | 100.2200 | -0.180       | 9.94  | 10.06    | 10.15     |
| Sweden   | 6.000  | 02/03    | 85.2240  | -0.760       | 8.74  | 8.71     | 9.17      |
| UK Gilt  | 9.000  | 12/05    | 104.20   | -1.17        | 6.98  | 6.95     | 7.23      |
| UK Gilt  | 5.000  | 02/03    | 104.20   | -0.21        | 7.44  | 7.44     | 7.62      |
| 9.000  | 10/05  | 110.17   | -2.22    | 7.69         | 7.60  | 7.87     |           |
| US Treasury  | 5.675  | 11/05    | 100.04   | -13.32       | 5.86  | 5.73     | 5.94      |
| 6.675  | 02/03  | 109.05   | -20.26   | 6.20         | 6.05  | 6.28     |           |
| ECU  | 7.500  | 04/03    | 102.7000 | -0.740       | 7.05  | 7.07     | 7.49      |
| London closing, New York mid-day   |        |          |          |              |       |          |           |
| 7. Gross including withholding tax at 12.5 per cent payable by nonresident |        |          |          |              |       |          |           |
| Price: US, UK in £; others in dollars                                      |        |          |          |              |       |          |           |

Source: NMS International

## US INTEREST RATES

|                           | Treasury Bills and Bond Yields |           |      |           |      |  |
|---------------------------|--------------------------------|-----------|------|-----------|------|--|
| Price rate                | 8%                             | One month | 2.4% | Two year  | 5.41 |  |
| Broker loan rate          | 7%                             | One month | 3.5% | Five year | 5.64 |  |
| Fed funds rate            | 5.5%                           | Se month  | 3.51 | 10 year   | 5.98 |  |
| Fed funds at intervention | 5%                             | One year  | 3.53 | 30 year   | 6.19 |  |

## BOND FUTURES AND OPTIONS

## France

| NOTIONAL FRENCH BOND FUTURES (MATIF) FF500,000 |            |        |        |        |           |           |  |
|--|------------|--------|--------|--------|-----------|-----------|--|
| Open   | Sett price | Change | High   | Low    | Est. vol. | Open int. |  |
| Mar 119.74                                     | 119.54     | -0.56  | 119.82 | 119.16 | 152,000   | 116,732   |  |
| Jun 120.16                                     | 119.82     | -0.56  | 120.20 | 119.75 | 599       | 3,961     |  |
| Sep 119.30                                     | 119.10     | -0.56  | 119.30 | 119.30 | 2         | 616       |  |

## III LONG TERM FRENCH BOND OPTIONS (MATIF)

|       | CALLS                      | PUTS        |
|-------|----------------------------|-------------|
| Price | Jan Mar Jun Jan Feb Mar    | Jan Mar Jun |
| 115   | 2.18 - 0.07 0.67 0.68      | 0.67        |
| 116   | 0.72 1.45 - 0.07 0.98      | 0.98        |
| 120   | 0.25 0.50 - 0.07 1.14 1.76 | 1.76        |
| 121   | 0.05 0.53 1.18 2.01        | 2.01        |
| 122   | 0.01 0.27 -                |             |

Est. vol. total, Calls 17,042, Puts 21,640. Previous day's open int., Calls 141,879, Puts 149,247.

## Germany

| NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100% |            |        |       |       |           |           |  |
|---|------------|--------|-------|-------|-----------|-----------|--|
| Open  | Sett price | Change | High  | Low   | Est. vol. | Open int. |  |
| Mar 98.48   | 98.55      | -0.24  | 98.75 | 98.14 | 145,365   | 171,726   |  |
| Jun 97.84   | 97.98      | -0.27  | 97.98 | 97.60 | 275       | 1,126     |  |

## UK GILTS PRICES

|                        | Yield | Red  | Price E + or - | 52 week - | Notes | Yield | Red  | Price E + or - | 52 week - | Notes |
|------------------------|-------|------|----------------|-----------|-------|-------|------|----------------|-----------|-------|
| 10s 1994 to Free Yield | 7.65  | 6.50 | 104.50         | -1.05     | 105%  | 7.65  | 7.46 | 129.00         | -1.05     | 105%  |
| 10s 1994               | 6.47  | 6.35 | 103.50         | -1.05     | 105%  | 6.47  | 6.35 | 129.00         | -1.05     | 105%  |
| 10s 1995               | 6.25  | 6.12 | 102.50         | -1.05     | 105%  | 6.25  | 6.12 | 129.00         | -1.05     | 105%  |
| 10s 1996               | 6.03  | 5.90 | 101.50         | -1.05     | 105%  | 6.03  | 5.90 | 129.00         | -1.05     | 105%  |
| 10s 1997               | 5.80  | 5.68 | 100.50         | -1.05     | 105%  | 5.80  | 5.68 | 129.00         | -1.05     | 105%  |
| 10s 1998               | 5.57  | 5.45 | 99.50          | -1.05     | 105%  | 5.57  | 5.45 | 129.00         | -1.05     | 105%  |
| 10s 1999               | 5.34  | 5.21 | 98.50          | -1.05     | 105%  | 5.34  | 5.21 | 129.00         | -1.05     | 105%  |
| 10s 2000               | 5.11  | 4.98 | 97.50          | -1.05     | 105%  | 5.11  | 4.98 | 129.00         | -1.05     | 105%  |
| 10s 2001               | 4.88  | 4.75 | 96.50          | -1.05     | 105%  | 4.88  | 4.75 | 129.00         | -1.05     | 105%  |
| 10s 2002               | 4.65  | 4.52 | 95.50          | -1.05     | 105%  | 4.65  | 4.52 | 129.           |           |       |

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divers on a budget  
President Bill Clinton  
congressional leaders  
began a negotiations  
yesterday afternoon  
in the US. There was  
to be lowered. Trade  
kets would drop by  
had a break over  
the new year.

UK government  
they spread over 6  
points from just a  
few points on Monday  
to a record level  
brought, causing a  
fall in the future.  
Analysts said that  
was inevitable after  
kets' strong perfor-  
mance. On the  
March contract of the  
future fell to 100.10  
volume of just over a  
Some data release  
today are unlikely  
the market with big

The market is  
non EU trade  
November, which  
a deficit of 800m.  
M1 data for Novem-  
ber to show a rise  
on the month, al-  
beit not new com-  
building societies, re-  
cently.

German govern-  
recovered some of  
losses but still re-  
down on life in-  
bund future trade  
of 94.11 and a big  
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• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4878 for more details.

## OFFSHORE AND OVERSEAS

### BERMUDA (SIB RECOGNISED)

| Open Date  | Selling Price | Buying Price |
|------------|---------------|--------------|
| 1995-01-01 | 1.0000        | 1.0000       |
| 1995-01-02 | 1.0000        | 1.0000       |
| 1995-01-03 | 1.0000        | 1.0000       |
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| 1995-06-01 | 1.0000        | 1.0000       |
| 1995-06-02 | 1.0000        | 1.0000       |
| 1995-06-03 | 1.0000        | 1.0000       |
| 1995-06-04 | 1.0000        | 1.0000       |
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| 1995-06-08 | 1.0000        | 1.0000       |
| 1995-06-09 | 1.0000        | 1.0000       |
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| 1995-06-22 | 1.0000        | 1.0000       |
| 1995-06-23 | 1.0000        | 1.0000       |
| 1995-06-24 | 1.0000        |              |

• FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

## OFFSHORE INSURANCES

## OTHER OFFSHORE FUNDS

WATER USES 2005

— **Deutsche Monetary Authority**  
— **European Monetary Committee**

Monetary - Financial Services Commission  
Banking - Central Bank of Ireland  
State of Mun - Financial Supervision Commission

**Survey - Financial Services Department**  
**Survey - Institut Monétaire Lévis-Lauzon**  
**Survey - Chambre de commerce de Québec**

Buying price - Bid or reservation price.

**Time** - The time shown alongside the bed management screen is the time of the bed's earliest prior admission, defined by one of the following methods:

13 - 0001 to 1100 hours  
14 - 1101 to 1400 hours  
15 - 1401 to 1700 hours

- 1691 to 1700: *Heavy*
- 1701 to mid-night: *Light*
- End comes on last of last.

- Member's periodic charge deducted from capital.
- Historic pricing P - Forward pricing
- Investment base of the member

- Distribution type of UK firms.
- Periodic premium insurance plans.
- Single premium insurance.

- Developed as a UCITS Undertakings for Collective Investment in Transferable Securities.
- Shared risks between all investors across borders.

- Current price estimate in comparison.
- Previous day's price.
- Estimated price.

- Guanacaste prov.
- Volcán Irazú - Jiríaco loc.
- En-Substratum: tal - En-Substratum

- Only accessible to classifying coders
- Yield Cohen's kappa intraclass values of 0.80 or more.

1. *What is the relationship between the two concepts of the self?*

## LONDON STOCK EXCHANGE

## MARKET REPORT

## Equities down again but above session's lows

By Steve Thompson,  
UK Stock Market Editor

Predictions of another turbulent and weak session on Wall Street when it opened for business yesterday proved misplaced and helped a nervous London equity market close well above its worst levels.

But most areas of the UK market still sustained hefty losses for the third consecutive trading session on the back of a weak gilts market and amid continued uncertainty over US interest rates and the US budget deficit. News of the 1% percentage point cut in the Federal Funds rate came well after London closed.

The FTSE 100 settled a net 19.2

lower at 3,576.9, extending the loss over the past three sessions to 94.7, or 2.5 per cent, while the FTSE Mid 250, which managed to resist most of the downward pressures on Monday, declined 16.8 to 3,937.4.

Dealers, still licking their wounds from Monday's sell-off, which caught many marketmakers completely on the wrong foot, remained extremely wary of Wall Street, adopting the view that the wrangle over the budget deficit had to be sorted out before markets fully regained their confidence.

There were numerous individual features, both positive and negative, helping to drive market turnover, which reached 926.8m shares by

1pm. Activity in the FTSE 100 constituents accounted for more than half of the total.

The biggest individual turnover stocks in the market were the utilities National Power and National Grid. The former bought in 57m or 44 per cent of its own shares via Cazenove, the broker, while Southern Corporation, of the US, sold a block of 25m Grid shares acquired with its purchase of South Western Electricity.

Significant turnover developed in British Gas, which also topped the FTSE 100 performance table, partly on hopes that the company may be able to renegotiate its long-term gas contracts. The real driving force

behind the shares' performance, however, was the revival of the takeover bid stories that first emerged a couple of weeks ago. "Gas has all the ingredients of a classic bid candidate, namely a bombed-out share price and a management under intense pressure," said one sector analyst.

National Westminster finally delivered the sale of its US subsidiary Bancorp, boosting NatWest shares, but the two Scottish banks suffered from the rapid disappearance of the "fast money" that drove the stocks up sharply last week.

On the downside, profits warnings caused drops in Courtaulds, Coats Viyella and W. Canning.

Opening just over 25 points down, the FTSE 100 attempted to rally in mid-morning only to fall back again and hit the day's low point 3,558.5, ahead of the Wall Street start.

With the Dow Jones Industrial Average quickly recovering from an initial 10-point fall to post a 19-point rise shortly after the opening, the Footsie stabilised and regained half of its loss.

Mr Ian Harnett, strategist at SGST Securities, described Wall Street's 10-point drop on Monday as a "short term correction" and pointed to the US market's 30 per cent advance this year. "The fundamentals in the US and UK still look positive," said Mr Harnett.

## Strong rally in Gas

British Gas, labelled "a dog with fleas since the summer" by one trader, may not have become a Crufts champion but was looking slightly more gloss yesterday.

The shares had hit a 2% year low and underperformed the FTSE-A All-Share index by some 45 per cent over the past year. Yesterday they recovered 10%, or 4.6 per cent, to 339.4p with 18m traded.

There were several reasons given for the turnaround. Initially, analysts pointed to a belated response to the appointment of a new negotiator. The company has taken on Mr Kenneth Gardner from Charterhouse Bank to renegotiate the problematic Take or Pay or Gas purchase contracts.

Also, the onset of cold weather after the warmest autumn since records began has reminded investors that there is a market to be tapped. And US gas prices are currently very high.

Finally, there was a return of wild stories that Shell or BP might make an offer for the former state monopoly in the hope that a mix of disarray among management and deflation of the share price would provide a chance to extract value from the company.

## NatWest advances

The long-awaited sale by National Westminster Bank of

its US arm was greeted with relief by the market.

NatWest shares jumped 19% to 649p on heavier than average turnover of 7m even though the final figure of \$5.56bn was lower than first hoped for. The sale to Fleet Financial also included a paper element and some investors had been hoping for a pure cash transaction.

However, NatWest gave the strongest signal so far that it would buy back some of its shares and added that it would not be buying a US investment bank as some analysts had feared.

As to what it does with the cash, analysts seemed to think it might be interested in purchasing Clerical Medical, the mutual life assurance, with which NatWest already has a link.

## Utilities deals

London volume was boosted by some particularly large turnover in the electricity sector.

National Power bought 14.2m of its own shares at 428p through Cazenove. Analysts said the move was unlikely to affect the company's gearing or its intended acquisition of Southern Electric.

However, it did put the spotlight on PowerGen. Mr Angelos Anastasiadis of Panmure Gordon commented: "PowerGen is in a position to buy back as much as National Power if not more. PowerGen shares gained 12 at 514p. National Power closed 4 up at 140p.

And Southern, of the US, was said to have been the seller of 25m National Grid shares, part of the stake it

acquired after buying South Western Electricity. The deal was taken on by Salomon Brothers late on Monday. The US brokerage had the depressing experience of watching Wall Street fall more than 100 points at one stage with the prospect of London falling heavily yesterday.

In the event it managed to make a penny turn on each share, taking them on 189p and selling them to UK and European institutions for around 189p. National Grid ended a penny to 189p.

And BT held virtually steady with a fall of only a penny to 341p as it received US support from Prudential Securities.

Arbitrage dealers who concentrate on the difference between the futures contract and the underlying market

## FINANCIAL TIMES EQUITY INDICES

| Dec 19 1988  | Dec 18 | Dec 19 | Dec 18 | Dec 15 | Dec 14 | Dec 13 | Yr ago | High  | Low   |
|--|--------|--------|--------|--------|--------|--------|--------|-------|-------|
| Ordinary Share   | 2595.3 | 2605.1 | 2593.3 | 2656.4 | 2648.0 | 2349.8 | 2676.1 | 223.8 | 223.8 |
| Dividend yield   | 1.1%   | 1.1%   | 1.0%   | 4.0%   | 4.0%   | 4.0%   | 4.0%   | 4.0%  | 4.0%  |
| PE ratio (1995)  | 14.37  | 15.67  | 15.75  | 15.99  | 15.88  | 17.68  | 22.33  | 15.25 | 15.17 |
| PE ratio (1994)  | 15.28  | 15.37  | 15.58  | 15.71  | 15.68  | 17.20  | 22.21  | 15.22 | 15.17 |
| FTSE 100 Ordinary Share index since compilation: high 371.6 2/2/94; low 48.4 26/4/90 |        |        |        |        |        |        |        |       |       |
| FTSE Ordinary Share index base date 1/7/93   |        |        |        |        |        |        |        |       |       |

Ordinary Share hourly changes

| Open   | 9.00   | 10.00  | 11.00  | 12.00  | 13.00  | 14.00  | 15.00  | 16.00  | High   | Low    |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2605.1 | 2596.5 | 2597.0 | 2595.7 | 2591.9 | 2593.8 | 2590.8 | 2591.0 | 2605.1 | 2595.5 | 2595.5 |
| Dec 19 | 27.558 | 27.079 | 27.692 | 27.257 | 27.454 | 26.973 | 26.973 | 27.558 | 27.558 | 27.558 |
| Dec 18 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 |
| Dec 15 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 |
| Dec 14 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 |
| Dec 13 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 |
| Yr ago | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 | 26.901 |

SEAO bargains

EURO turnover (Exmt)

EURO equity

Shares traded (mtf)

(Excluding intra-market business and overseas turnover)

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## AMERICA

# US equities volatile in early trading

## Wall Street

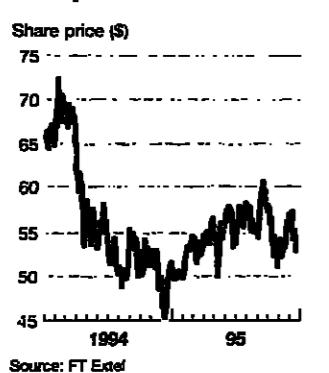
Trading was volatile on Wall Street early yesterday in the wake of Monday's sharp sell-off as investors returned to technology shares and waited for news from Washington about the course of monetary policy and the US budget, writes *Lisa Brunner* in New York.

The Dow Jones Industrial Average and the Standard & Poor's 500 moved nervously through positive and negative territory.

By 1 pm the Dow was off 12.28 at 5,062.93 and the S&P had lost 0.94 at 605.87, while the American Stock Exchange composite added 0.49 at 527.93. Volume on the NYSE was heavy at 282m shares in spite of the late opening.

Uncertainty was the rule yes-

## Whirlpool



terday, with the FOMC meeting to consider monetary policy and President Bill Clinton set to meet with Congressional leaders at 3pm to work on a deficit-cutting budget plan.

Until Monday there remained hope on Wall Street that the Fed might cut interest rates at today's meeting, but the fact that the government still had not agreed to a budget package on Monday dashed the hopes of many investors.

Meanwhile, the technology-rich Nasdaq composite staged a modest recovery after surging nearly 54 points in the

## Mexico opens firmly

Mexico City started higher in heavy trade on the back of a slight rebound in the US equity markets and expectations for a firm peso.

The IPC index was up 37.45 at 2,694.05. Turnover was heavy at 7.6m shares.

There were 23 gainers and just five decliners in early action. Dealers said the market faced resistance at the 2,700-point level.

Telmex L shares improved by 1.5 per cent following heavy losses in both the local market and New York on Monday.

## S African industrials weaker

Johannesburg's industrial shares fell broadly on the back of Wall Street's sharp setback on Monday and uncertainty over a decline in US interest rates.

The industrial index tumbled 50.0 to 7,902.9, dragging the all-share index down 43.0 to 6,197.0.

Most blue chips experienced modest declines. Murray & Roberts, the construction and engineering group, receded 75 cents to R26. Malibak, the con-

sumer goods concern, relinquished 50 cents at R25.25, and Sappi, the pulp and paper producer, was off 75 cents at a 1995 low of R50.25.

The gold shares index was fairly stable, dipping only 3.7 to 1,334.4 after a marginally firmer price for bullion. Among moving issues, Freegold, South Africa's largest producer, shed 50 cents to R30. Western Areas slipped 75 cents to R61 and Hartjes gained 30 cents or 3.3 per cent at R5.50.

Some financial groups were suffering light profit-taking after recent gains.

SAO PAULO was slightly weaker at the opening as many investors kept a wary eye on events in the US. The Bovespa index had lost 40.62 at 40,520 by mid-session. BUENOS AIRES was also in a holding pattern by midday. The Merval index gained a scant 3.51 at 40.32. Traders said the sale later in the session of the government's stake in utility Rodo was also likely to feed the market's momentum.

The Topix index of all first section stocks fell 11.54 at 1,520.12, while the Nikkei 300 shed 2.01 to 285.79. Declines outnumbered advances by 820 to 246, with 155 issues remaining unchanged.

In London the ISE/Nikkei 50 index gained 5.02 at 1,320.38.

High-technology issues were heavily sold. Hitachi dropped Y22 to Y968 and Toshiba Y6 to Y761. NEC declined Y20 to Y1,200 on rising fears of a slowdown in personal computer sales in the US, as well as a fall in semiconductor prices. Selling by foreigners also prompted profit-taking by domestic investors, who had actively bought the sector earlier in the year.

Banks were mixed as negotiations over the *Japan* solution continued. Industrial Bank of Japan dipped Y20 to Y3,100, but Bank of Tokyo gained Y10 at Y1,750. Analysts do not expect shares to rise on an eventual solution, since the use of public funds in dealing with the housing loan compa-

nies' bad loans are already factored into share prices.

Brokers, which had been bought on the rise in trading volume on the Tokyo stock market, were lower. Nomura Securities retreated Y30 to Y7,400 and Yamaichi Securities lost Y20 to Y7,000.

The index lost 170.59 at 19,140.49 after moving between 19,071.12 and 19,242.03. Worries over US shares prompted a fall in futures prices, triggering arbitrage unwinding. The delay over the solution for *Japan*, or housing loan companies, also eroded investor confidence.

Volume was 370m shares, against 340.7m. Overseas investors sold high-technology shares, while investment trusts also unloaded holdings. However, domestic institutions were seen bargain hunting at lower levels, preventing a large sell-off.

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## EUROPE

# Polygram slides 9% on flat earnings growth

Polygram plummeted 9 per cent in AMSTERDAM as the music to films group warned that 1995 profits were likely to be unchanged. The shares shed Fl 8.30 to Fl 81.50 after the analysts began to revise down earnings projections on the gloomy news. Some brokers said they were cutting 1996 eps forecasts to around Fl 4.60 to Fl 5.45.

The company said yesterday that it had suffered during the second half because of a weaker than expected performance from its pop music division, as well as the absence of a major box-office hit movie. The strong guilder also contributed.

Philips, the parent group, left the shock waves and its shares slid Fl 2.00 to Fl 55.80.

PARIS was battered by a number of corporate stories, including Valeo, the manufacturer of car parts, which fell heavily on expectations that analysts were about to revise down future earnings expectations. The shares lost FF7.20 or 3.4 per cent to FF70.50.

The CAC-40 index dipped 0.26 to 1,310.20 in turnover of some 9.7bn.

FRANKFURT, in contrast to many other markets, had a relatively quiet day's trading. The Ibov index closed at 2,241.32, up 0.5 per cent from 2,235.62.

DAIMLER CLIMATE SYSTEMS was the only major loser in the session, down 1.3 per cent to DM 1.20 to DM 1.17.

PHILIPS was the only major gainer, up 1.2 per cent to DM 1.20 to DM 1.21.

Stocks were up with UBS falling SF27 to SF12.33 and SCS dropping SF11 to SF11.23.

SPAIN was the only market to show a slight decline, down 0.1 per cent to 1,020.20 to 1,019.10.

SWITZERLAND was the only market to show a slight increase, up 0.1 per cent to 1,020.20 to 1,020.30.

Stocks were up with UBS falling SF27 to SF12.33 and SCS dropping SF11 to SF11.23.

SWEDEN was the only market to show a slight increase, up 0.1 per cent to 1,020.20 to 1,020.30.

NETHERLANDS was the only market to show a slight increase, up 0.1 per cent to 1,020.20 to 1,020.30.

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# SLOVAKIA

## Infighting obscures economic progress

Slovakia is enjoying the second fastest economic growth in eastern Europe. But the feuding of its politicians is winning bigger headlines, write Vincent Boland and Kevin Done

Slovakia is in a strange mood as it approaches the third anniversary of its independence.

On the one hand its economy is set to grow by 7 per cent this year, the second-fastest east European economy after Albania. Year-on-year inflation was 7.8 per cent in November, down from 11.8 per cent in 1994. Current account convertibility was achieved on October 1. The currency is strong, backed by foreign exchange reserves of over \$2bn.

On the other hand, the country is going through a damaging period of political tension. A power struggle between president Michal Kovac and prime minister Vladimir Meciar grows more bitter by the day with no sign of a resolution. Government officials complain that international attention focuses on the country's political battles rather than its creditable economic performance.

This is partly due, however, to the theatrical nature of Slovak politics, whose practitioners think nothing of going on television and attacking opponents in lurid terms. It also reflects the government's failure to sell its economic achievements coherently.

Mr Meciar's government is a coalition of populists and nationalists that took office a year ago. The prime minister's Movement for a Democratic Slovakia (HZDS), which dominates the coalition, draws support from industrialists and factory workers, bankers and farmers, and provides the populist heart of the administration.

The HZDS is joined on the left by the Alliance of Slovak Workers, economic hardliners who do not like privatisation but whose representatives still control the privatisation ministry and the state holding company.

On the right is the Slovak National Party (SNS), which espouses hardline nationalism and regards Slovakia's 567,000-strong ethnic Hungarian minority in a way that borders on racism.

After some months of uncertainty, the government's economic policies are clear. Privatisation has been switched to a policy that favours domestic - and often HZDS - interests, and is progressing rapidly. A prudent fiscal policy common to the three governments that have ruled since independence on January 1, 1993 has been encouraged by the National Bank of Slovakia and the International Monetary Fund.

It has ensured that the budget deficit has fallen from 12.5 per cent of gross domestic product in 1992 to 1.4 per cent last year. This year's deficit should be similar, with social spending under tight rein and subsidies phased out.

Economic reforms are already bearing fruit, with 65 per cent of gross domestic product now generated by the private sector, according to official estimates.

More divisive are Mr Meciar's political agenda and foreign policy. He earned kudos in March when he agreed a bilateral treaty with Hungary that fixes their common border and grants substantial rights to ethnic Hungarians, who make up 10.8 per cent of the population. But he has failed to get the SNS to back it, and its ratification is not likely before next year.

Last month a law making Slovak the official language and potentially restricting the right to use others was approved by parliament. Mr Meciar has promised to introduce legislation early next year to strengthen minority language rights, which are currently enshrined in the constitution.

Developments such as these



Bratislava, Slovakia's capital, seen from its citadel: a delicate balancing act on the fault line between east and west.

have damaged Slovakia's image. The European Union, which Mr Meciar says he wants to join, expressed serious concern in October at political developments, for the second time in less than a year. The US did likewise, and the European Parliament issued a harsh rebuke. German Chancellor Helmut Kohl has made clear this month his belief that Slovakia does not belong to the front runners from central Europe - namely the Czech Republic, Poland and Hungary - for early membership of the EU.

Mr Meciar reacts defensively to these demarcations. He blames foreign governments for talking only to the opposition, among which he numbers Mr Kovac. Yet diplomats and opposition figures complain the government maintains

only a half-hearted dialogue with western Europe. Mr Meciar's conflicting signals on aspiring to the European mainstream while failing to develop the means to achieve it have cost him friends abroad.

He is known to be angry at not being invited to make official visits abroad. He has not been to Bonn, Paris or London on a prime ministerial visit.

The EU says Mr Meciar must first prove himself a democrat. "Invitations will come at the end of the democratic process," says a western diplomat in Bratislava.

Slovaks see a double standard here. They argue that the democratic process in, say, the Czech Republic or Hungary is not complete, yet the prime ministers of those countries are feted abroad. But, counters

the diplomat, "there are special circumstances in Slovakia".

Chief among these is the government's unwillingness to tolerate dissent. Parliamentary opposition is weak and effectively powerless. The government accuses it of being unpatriotic. Control of TV means only official views are aired. Many sensitive jobs are politicised, with loyalty to the government prized over an ability to do the task.

Comparisons with the icy pragmatism of the Czech Republic, though inevitable, may be unfair. When the two countries split, Slovakia, having just emerged from communism, ended centuries of domination but inherited severe economic problems.

It is small, with a population of 5.2m, essentially rural - although it also inherited much of the former Czechoslovakia's industry, which now faces a daunting task to restructure - and it can be roundabout and suspicious. It has a chip on its shoulder about a larger neighbour and an alienated minority that does not feel at home. It is also resentful of the scepticism that greeted its creation.

The resentment is understandable but may now be counterproductive. Economic achievements aside, Slovaks have created a state out of very little. There are free elections, a fundamentally strong constitution, an independent central bank and an independent judiciary. "We underestimated the Slovaks," notes Jozef Cakota of the European Bank for Reconstruction and Development in Bratislava.

Political tensions are not reflected widely among the population. Much of it wants an end to the political battle. Slovaks and Hungarians live peacefully together. They have other concerns. Unemployment is 12.8 per cent, though it has been higher. Economic gains are not widely spread. Life is still tough.

"Slovaks are easy to govern," says Eduard Kukan, foreign minister in the last government. "They are happy with the little they have and even if you cut it a little they will be a little less happy but still happy."

Independence eventually brings self-confidence and economic prosperity should bring political maturity. The danger is that it could fall too far behind in the race to join western structures. Staying in this race will be the ultimate test of Slovakia's independence.



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### Essential information

| Year                                | 1992  | 1993  | 1994  |
|-------------------------------------|-------|-------|-------|
| Crude oil processing (million tons) | 4,41  | 4,34  | 4,81  |
| Turnover (billion Sk*)              | 25,15 | 28,00 | 33,14 |
| Pre-tax profit (billion Sk)         | 1,88  | 1,61  | 3,14  |
| Export (billion Sk)                 | 3,36  | 10,88 | 14,26 |
| No. of employees                    | 7054  | 5920  | 5309  |

\* Exchange rate Sk 31.58 to US\$ (2 January 1995)

### Shareholders structure (11.1.1995)

|   |         |
|---|---------|
| Slovintegra, a.s.*                            | 38,99 % |
| National Property Fund of the Slovak Republic | 25,23 % |
| Foreign investors, EBRD                       | 16,07 % |
| Domestic investors                            | 15,04 % |
| Individual shareholders                       | 3,39 %  |
| Restitution Investment Fund                   | 1,28 %  |

\* Managers and Employees Joint Stock Company

### The ten most profitable Vlajná companies, 1994 (size ranking by turnover in brackets)

September 1995 Business Central Europe

|                                     |                      |          |
|-------------------------------------|----------------------|----------|
| ČEZ (6)                             | Czech R/energy       | \$562,4m |
| Slovenský plynárenský priemysel (8) | Slovakia/energy      | \$414,2m |
| KHGM (7)                            | Poland/metallurgy    | \$282,3m |
| SPT Telecom (22)                    | Czech R/telecoms     | \$260,6m |
| Petrochemia Plock (3)               | Poland/fuel energy   | \$259,0m |
| CPP Transgas (19)                   | Czech R/energy       | \$167,2m |
| CPN (1)                             | Czech R/energy       | \$147,6m |
| VSŽ (17)                            | Slovakia/metallurgy  | \$120,0m |
| Slovnaft (13)                       | Slovakia/fuel energy | \$98,1m  |
| Rafineria Czechowice-Dziedzice (93) | Poland/energy        | \$87,6m  |

## 2 SLOVAKIA

■ Politics and personalities: by Kevin Done

# Prime Minister at war with his President

In the short space of five and a half years Mr Vladimír Mečiar, the Slovak prime minister, has already led three administrations. Twice he has been swept from office by party splits or parliamentary manoeuvres, only to return several months later victorious at the polls.

In the last election 15 months ago his Movement for a Democratic Slovakia captured 35 per cent of the votes, more than his three closest rivals together.

Mr Mečiar, an unashamed populist, has proved the strength of his support, but he remains a highly controversial figure with a reputation for riding roughshod over both allies and opponents.

With support drawn from the far right and the far left of Slovak politics in the shape of the Slovak National Party and the Slovak Workers Association, he has secured a firm

majority for his coalition government. In the 150-member parliament he faces a fragmented opposition with no other single party having gained more than 10 per cent of the votes at the last election.

Mr Mečiar's drive to consolidate his power has not gone unchecked, however. Several of his actions have been challenged by the Constitutional Court and he has drawn harsh criticism from foreign governments with two complaints from the European Union in less than 12 months, one from the US government, and a highly critical resolution from the European Parliament.

The most crucial power battle is being waged by Mr Mečiar against Slovak President Michal Kováč, who was elected for a five-year term by parliament in February 1993.

The animosity between President and Prime Minister is poisoning Slovak politics, and

neither man shows any sign of backing away from the conflict.

The pair were formerly allies in the Movement for a Democratic Slovakia party (HZDS) led by Mr Mečiar, which dominates the present coalition, but they are now locked in damaging confrontation.

Mr Mečiar, 53, once a leading

official in the Czechoslovak communist youth movement, was expelled in 1968 and worked as a smelter in a heavy engineering works in the early 1970s. He later became a company lawyer before rising to prominence in the Public Against Violence movement in the wake of the Velvet Revolution of late 1989.

In January 1990 he became Slovak Minister of the Interior, and then Prime Minister following the first free elections of June 1990.

Mr Kováč, 65, spent his career in banking at the

federal parliament in the second half of 1992.

It is these two men who are now playing the crucial roles in deciding the future course of democracy in Slovakia and the nature of its institutions.

They were instrumental together in helping the country's peaceful move to independence three years ago, but Mr Mečiar has since been clearly discomfited by Mr Kováč's avowed determination to mould the presidency into an institution independent of both the government of the day and Mr Mečiar's HZDS.

The president was instrumental in ousting Mr Mečiar's first post-independence government in March 1994 amid charges of corruption in the privatisation process.

Since becoming prime minister again last December, Mr Mečiar has tried to get rid of Mr Kováč, so that he can install himself at the helm of a

presidential government. He cannot do this without changing the constitution, however, for which he needs a three-fifths qualified majority of 90 out of parliament's 150 votes.

His government has 62 seats and appears unlikely to get the extra eight it needs to carry out the change. Mr Kováč has weathered a parliamentary vote of no confidence. Now Mr Mečiar is toying with the idea of holding a referendum on the presidency, but such a move is risky.

The battle between the two men took the most bizarre turn at the end of August, when the president's son, also named Michal Kováč but now known universally as Kováč Junior, was kidnapped and abducted to Austria.

Mr Kováč Jr, a 34-year-old businessman, was taken from his home, beaten up, forced to drink bottles of spirits, and dumped in the boot of a car

outside a police station in neighbouring Austria. The police were alerted by an anonymous phone call.

At least that is one version. Mr Mečiar insists that this is still only "an alleged kidnapping". President Kováč insists it was the work of the Slovak Intelligence Service.

In Austria, Mr Kováč Jr was arrested under a warrant issued late last year at the behest of a prosecutor in Munich, who was investigating fraudulent business deals between German and Slovak companies.

Amid such turmoil doubts have emerged as to whether Mr Mečiar can create a modern democratic state ready to enter an enlarged European Union by the end of the decade, and western governments have voiced clear concerns at the risk of being charged with meddling in Slovakia's internal affairs.

President Kováč and Prime Minister Mečiar air their differences in interviews conducted by Kevin Done and Vincent Boland

## Kováč: my fears

QUESTION: The respective powers of the President and the Prime Minister under the constitution appear quite clear. Why is this battle going on between the two of you?

ANSWER: In the course of several discussions with the Prime Minister it emerged that he does not like the President to be another power centre. I say the office of the President does not represent any other political centre. But I understand the function of the President to be an active one.

The real reason for the conflict is that the President is taking a critical approach to some of the actions of Mr Mečiar's government.

I would be very happy if we were of the same opinion on how a government should function under the constitution in a democratic state. But I think there is a different understanding of what is democracy.

The most obvious example is what happened during the parliamentary sessions of November 24 last year.

I believe that many things happened, which were in conflict with standard democratic principles and were also in conflict with the constitution. What were your main concerns?

Until then the principle that had been adopted in parliament was one of proportional representation. That meant that the opposition also had the possibility of providing one of the deputy speakers and also some chairmen and deputy chairmen of parliamentary committees.

But this basic principle was not followed that night. For

example, the OKO committee, the special body which controls the secret service - its members were only drawn from the government coalition, and this is still the case today.

Or take the state radio and television councils - they only have members proposed by the government coalition. They are also appointed new directors for television and radio. The result is that television is fully controlled by the government.

In what ways do you feel that the Prime Minister is abusing the constitution?

He has proposed several laws, five or six, which were adopted by parliament, but when these laws were later presented to the constitutional court, in almost all cases the court found that they were unconstitutional.

It is also known that the Prime Minister has been criticising the constitutional court's decisions. In one of his statements he said the constitutional court was "a sick element".

Could we move to the kidnapping of your son? Who do you believe was behind this act?

I am of the same opinion as the largest part of our society. There are really many direct and indirect indications that prove that the kidnapping of my son to Austria was organised by the Slovak security service.

As you know the investigation is still going on, and during this investigation there have been several very odd interferences. It showed that there was an attempt not to find the real criminals, those who did it.

I am worried in particular about one thing. Any citizen of the Slovak republic has rights in the case of such kidnapping by force to a foreign country. We are trying to make it pos-

itive they are going to cut our money again, and if it is approved by parliament like this, we will be forced to release another 10 people.

Members of the government try not to meet the President. The coalition MPs behave in the same way.

In what ways do you feel that the Prime Minister is abusing the constitution?

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itive for my son to give evidence and testify in front of the German prosecutor. If they find that this is impossible to organise in Austria, my son is ready to go and testify.

Do you think you have aligned the office of the President too closely with the fate of your son?

I didn't do that. My political opponents have done that: I always claimed that I am not responsible for my son's deeds. And if my son really committed some criminal act, he must be sentenced and punished like any other citizen. But when I see that somebody is misusing this affair as a means of political struggle against the President, I cannot be silent.

We see that my political opponents need this case to be always alive. It does not matter whether or not my son is guilty or how his family suffers. The important thing for them is that this is the case by which they can discredit President Kováč. Given the pressures that have been applied, have you ever considered resigning?

No. Just the opposite. Everything that has happened has convinced me that I must not resign, and that I am obliged to defend clean politics, democracy, the constitution and the law against attempts to undermine them.

How do you think this battle can be resolved?

There are many ways, but they are mostly in the hands of the Prime Minister and the MPs of the government coalition.

The government coalition must stop taking steps that damage the image of Slovakia abroad. It must allow the opposition to have a role in the control of executive power.

The public media, television and radio, must be under the control of a wider political and social spectrum. They must get away from the influence of the government coalition. But I have no demands for this or that person to resign.

Of course I have the right to express publicly my opinions, when I am concerned that our democratic system has been damaged or that rules are being adopted which are in contradiction with the constitution, especially when freedom of opinion and freedom of expression are threatened.

Today we find that more and more people are afraid to express their opinions publicly, because they fear their existence will be threatened, that they could lose their jobs. I cannot close my eyes and ears to that.

The director of the SIS has given written testimony that he was not involved in the abduction.

Why were the police officers

investigating the kidnapping changed three times?

That is not quite the right formulation. There was a team of investigators assigned to the case. After visits to President Kováč one of the investigators claimed that he would become a general. He became negligent. He did not fulfil his professional duties.

I tried to compel the prosecutor to take similar action. He tried to convince the prosecutor that the current government would be toppled in a few days. And that they would achieve their goals and be promoted.

And shortly after that he filed his request to be released from the police service and then started investigating on his own behalf. So let me reiterate the fact that he was not the head of the investigation. He was one of the staff.

A decision was then made to dissolve this group of investigators and have it replaced by another team. The head of this team paid a visit to the president. After this visit several officers involved in the investigation called on the SIS staff. And nine people of the SIS were persuaded to say that if they testified that the SIS was behind the abduction they would be rewarded for that and would be promoted.

The prosecutor in charge of the oversight of the whole case did further investigation. And this investigation has not been completed yet.

For the very reasons I have mentioned the prosecutor has decided again to hand the whole case to a new group of investigators. The investigation is still underway.

The President has stopped being the guarantor of democratic development in Slovakia as far as the government is concerned. That's what Slovakia needs.

The President has stopped being the guarantor of democratic development in Slovakia as far as the government is concerned. That's what Slovakia needs.

We have heard that civil servants are being asked to sign statements that they feel that the President is acting against the interests of the country. Is that true?

No. I haven't heard this piece of information. As far as I know all those who have made statements have made them of

their own free will.

This issue may be resolved by inviting a referendum on the President. I believe that Slovak society is very sensitive to all issues related to justice. Do you intend to hold a referendum on the question of the President?

This is an issue to be resolved by parliament. We have to take into consideration the demands that have been sent to Slovakia. To date no political decision has been made on whether to hold a referendum. I believe that a referendum would be one democratic option for resolving this issue.

The demands were very critical of the battles between you and the government and the President. Do you intend to change your policies towards the President?

Every policy step taken is measured by the achievement, by the result.

Let me pose some questions. Do the ones who sent the demands take over responsibility for internal developments in Slovakia? Do you think it fair on the hand to send demands and on the other to fail to listen to the other party?

We have signed an association agreement with the European Union, and in it are stipulated the commitments made by Slovakia, and also stipulated is the procedure that should be resorted to in the event that conflicts emerge. I believe that this agreement has been breached.

It really does not give a very good impression if the European Parliament adopts a resolution and threatens us with sanctions, and then, two weeks after sending the demands, the MPs of the European Parliament come to investigate what is actually going on.

We want the public to support the concept of Slovakia becoming a member of the European Union. It is not only the EU countries that will vote on the opinion on whether Slovakia should become a member of the EU, however. It is also the people of this country that must decide. In this respect the actions taken are counter-productive.

## SLOVAKIA INITIATIVES

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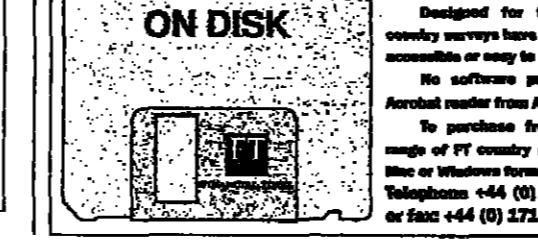
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## 4 SLOVAKIA

■ Privatisation: by Vincent Boland

## Shares for all no longer the favourite policy

**Sell-off procedures are being revised to ensure tighter control of key national assets**

On taking office a year ago the government of prime minister Vladimír Mečiar introduced sweeping changes in the country's privatisation programme, dropping coupon privatisation for the man in the street and shifting the balance in favour of a narrow group of owner/managers.

The coupon method of sale, an invention of Prague-based economists, was deemed unsuitable by a government of economic nationalists determined to pave a Slovak road to capitalism. The result is a growing concentration of ownership among groups close to the government, which has sought to retain an active role in the economy.

A plan to sell Sk 80bn of state assets using the coupon method had been drawn up by the interim administration. Its cancellation sparked much criticism and came at some cost to budget revenues - investment fund managers who had spent heavily preparing for the new round had to be compensated. In addition some 3,500 coupon holders are to be offered a bond issue due to be distributed in January.

There were good reasons for abandoning coupon privatisation. It is slow and can be an administrative nightmare. It results in widely dispersed ownership and, to be truly successful, it requires the immediate implementation of rules to protect small investors, which are not yet forthcoming in, for example, the Czech Republic.

On the other hand, it has a measure of transparency and fairness in that all adult citizens can participate. This makes it politically popular.

The government's main argument for abandoning the coupon plan was that dispersed shareholdings meant there was no clearly identified owner. There was also the unstated fear among the nationalists that the back door would be opened to foreign investors to pick up assets on the cheap.

Critics argued that these were excuses for abandoning privatisation altogether. The reverse has happened. The adoption of "standard methods" of privatisation has quickened the pace considerably,

with hundreds of sell-offs in the second half of this year with an estimated book value of \$1bn. These range from small factories to the state holding company, the National Property Fund (NPF), over the 10-year period of the payment. The fear is that company cash flow will be diverted in the form of dividends to owners to make up for the sales.

The speed of the sell-offs is indeed admirable. About 65 per cent of gross domestic product is now generated by the private sector, according to official estimates. The vast majority of these sales have been made to executives and workers at the enterprises involved.

The aim, Mr Mečiar says, is to create a native entrepreneurial and managerial class, which Slovaks lack. He also defends the methods used to reduce state ownership: "Various lobbies say our methods are undemocratic. We think they are necessary and inevitable," he says.

Yet there are clear signs of a wider agenda in the current bout of privatisation fever. Assets are often sold at knock-down prices and buyers have

been paid for, in a country chronically short of capital. Those managers who buy the stakes will owe substantial sums to the state holding company, the National Property Fund (NPF), over the 10-year period of the payment. The fear is that company cash flow will be diverted in the form of dividends to owners to make up for the sales.

Few companies have the cash flow to afford this. "The company is paying for its own acquisition in the end," notes Jean-Christophe Ganz, manager of ING Bank in Bratislava.

Economists tend to play down the political dimension of privatisation. For the National Bank of Slovakia the important thing is that it is continuing, says Elena Kukutova, head of the independent central bank's monetary policy unit. "It is difficult to decide which privatisation policy is the best one," she says.

So far the government's policy has not had an adverse impact on inflation, but nor has it enabled substantial inflows of fresh capital and know-how. This raises two further questions. The first is how the bond issue will be paid for.

Each coupon holder is to receive a nominal Sk10,000 bond backed by the assets of the NPF. The bonds can be used for things like paying for an apartment or contributing to a private pension scheme, requiring early redemption, and they are also likely to be transferable.

The bonds are due to mature in 2001, requiring the NPF to have up to Sk35bn available to pay out. Meantime, there is annual interest based on the discount rate (currently 8.75 per cent). Although not all holders are expected to retain the bonds to maturity, economists warn that the potential cost of the scheme could be as high as Sk50bn. This is a giant mortgage on the NPF that it must be able to discharge.

The second question is how industry will be restructured. Key companies such as Slovnaft and the big VSZ steel plant have largely modernised and are helping to fuel economic growth. Many others await the kiss of life. Foreign investment is one obvious solution, and some observers expect a push to attract it next year. This would be a government *vote face*, but one that Mr Mečiar may be pragmatic enough to pull off.

There is also growing concern about how these assets

## PROFILE

## SLOVNAFT, THE PETROCHEMICALS GROUP

## Moment of truth for a national asset

Executives at the petrochemical group, the country's biggest and probably its most important company, have a unique opportunity to test the truth of the local cliché that "what is good for Slovnaft is good for Slovakia".

In a textbook example of the government's privatisation policy at work, the National Property Fund (NPF), the state holding company, sold 35 per cent of Slovnaft in August to 19 of its senior executives, led by chairman and chief executive Slavomír Hatina.

The state has a book value of Sk8.4bn. Informed sources suggest Slovintegra, the management company that bought it, will pay no more than Sk2.4bn over 10 years. The executives own 51 per cent of Slovintegra and most of Slovnaft's 5,200-strong workforce have 49 per cent.

The deal came just weeks after a global share offering by Slovnaft that flopped. The

offer was rescued by the European Bank for Reconstruction and Development, which paid \$55m for just over half the total offering, giving it a 10.5 per cent stake, when it became clear that international investors were unwilling to subscribe to it.

Investors were put off by fears that Slovnaft is too close to the government, and because the offer coincided with a radical change in the official approach to privatisation.

These fears appear to have been partly borne out. The EBRD was not flagged at the time of the offer and it has deeply aggravated the EBRD. A prospectus released at that time gave no hint that the sale was imminent, although there were warnings galore in the document that scared foreign investors.

The prospectus noted, inter alia, that "... no assurance can be given that (the NPF) will not take a more active

role in the company in the future, including taking action which may not be in the best commercial interests of the company and its other shareholders."

Jiri Kuehner, head of Slovnaft operations at the EBRD, believes the MBO is not in the best interests of Slovnaft. The company is too big for such a course to be appropriate, he argues. He also says the bank probably would not have rescued the buyout had it known the

buyout was imminent.

Both the government and Slovnaft's management insist the MBO is good for Slovnaft. Mr Hatina says "there is no conflict between Slovintegra and other shareholders". Management acquired control in order to ensure the completion of a \$900m investment programme that he says will make Slovnaft the most modern refining complex in central Europe.

The company has spent heavily on restructuring and

cleaning up its operations to cut pollution and waste. It is now an increasingly efficient and profitable operation. Over the past two years several foreign oil companies, notably Austria's OMV, have sought a strategic partnership.

Management now fills the role. "We consider Slovintegra as a strategic partner for Slovnaft that will ensure its long term success," Mr Hatina says.

He is one of the few senior executives of Slovnaft companies to escape a purge by the government since the start of the year. Dozens of corporate bosses regarded as "anti-government" have been replaced by people the government trusts to implement its nationalist economic policy.

Yet Mr Hatina may be more

independent than the government thinks. Last month Slovnaft shareholders, including Slovintegra, the EBRD and the NPF, which

retains 25 per cent, rejected a

plan that would have allowed the government to exercise a golden share with a veto over key corporate decisions.

The move has undermined a

controversial and ambiguous

law allowing for a golden

share in strategic industries

that many industrialists

would like to see scrapped. In

reaction above, notes

Jeromír Čekota of the EBRD

in Bratislava, that "in private

companies managers behave

like private owners, not as

agents of the government".

That may yet be good news

for Slovakia. It is unclear

whether it will persuade the

EBRD to remain a share

holder in the medium term.

The bank is thought to be

seeking an exit mechanism at

the same price at which it

stepped in to buy its stake.

The Constitutional Court,

meanwhile, is expected to rule

on the validity of the golden

share law this month.

Vincent Boland

■ Nuclear power: by Kevin Done

## Snail-like progress at Mochovce

Russia and the Czechs are poised to complete the project after years of delay

The eight huge cooling towers of the Mochovce nuclear power station and its marching columns of power transmission pylons dominate the surrounding countryside of south-west Slovakia.

But no steam pours from the towers and electricity is transmitted into the power station but not out of it. Fifteen years since building work first started the 1,800-strong operational workforce at Mochovce can still only rehearse and practise. Construction ground to a halt during 1991 and 1992 as finance for the work dried up.

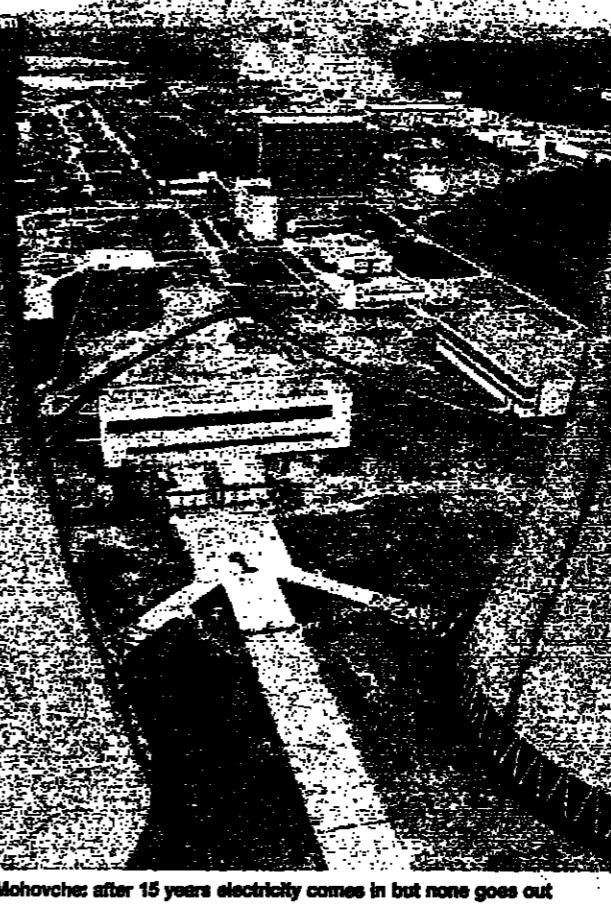
The need for the power station to be completed is becoming increasingly urgent, however, as electricity consumption rises to satisfy economic recovery, and Slovakia's existing outdated nuclear and thermal power stations pose a growing safety and environmental threat.

The Czech-Russian scheme has been adopted controversially by the Slovak government in preference to a deal negotiated painfully during the past two years with the European Bank for Reconstruction and Development and Electricité de France (EdF), the French state utility.

The EBRD had laid down

several conditions on its proposed DM412.5m loan for co-financing the completion of the Soviet-designed Mochovce power plant, which proved unacceptable to the Slovak government.

In particular, Bratislava



Mochovce after 15 years electricity comes in but none goes out

with the signing of an agreement with EdF to provide technical and support services for the completion of the first two units at Mochovce.

EdF, which was to have been

the prime contractor for the

EBRD-financed scheme, will

now provide technical support

in project control, quality

assurance and safety improvement

and will also assist in the

development and organisation

of the project.

Despite international con-

cerns Slovenske Elektrarne

insists that the Mochovce plant

will be completed in line with

the safety criteria laid down by

the International Atomic

Energy Agency and will

comply with the recommendations put forward by Risikudit, the Franco-German consul-

tance.

Czech, Russian and Slovak

groups will be the leading con-

tractors with safety improve-

ments to be carried out by Sie-

mens of Germany and

Framatome of France. It is

planned that the financing will

be backed by Russia, two lead-

ing Czech banks and a west European bank.

Under this structure the

Czech engineering firm, Sko-

mpunkt Praha, will be the

general designer for the

Mochovce project in co-operation

with the Russian nuclear

design organisations, Skoda Praha

will be the general contractor

for the supply of plant

and equipment, while the Slo-

vak construction group, Hydrosav, Bratislava, will be the main contractor for the

civil engineering works.

It is planned that work on

the necessary safety improve-

ments will be carried out by

Siemens of Germany and

Framatome of France in

conjunction with Skoda Praha

and the Russian organisations

with implementation under the

leadership of the Czech group.

Financing is expected from

various sources led by the

Czech banks, Komerční Banka

and Česká Sporitána, which

are offering loans of around

\$200m and DM200m respec-

tively. Support worth \$150m is

expected from Russia, partly in

cash and partly in kind, includ-

ing the provision of nuclear

fuel. Additional funding sup-

port is being negotiated with

Slovak and west European

banks, says Mr G

# SAUDI ARABIA

## Shocks overshadow kingdom's progress

A rise in fundamentalism and the King's recent illness have put new strains on this traditional but nevertheless fast-changing ally of the west. David Gardner reports

Just as Saudi Arabia was beginning to adjust to life in the (relatively) straitened circumstances of lower oil revenues, it has suffered two heavy blows in the past two months.

On November 12, a car bomb destroyed a US-staffed Saudi National Guard communications centre in Riyadh in the first real terror assault on the kingdom. Then, at the beginning of this month, King Fahd Bin Abdul-Aziz, the frail Saudi monarch, was taken into hospital, triggering fears of a succession crisis.

Both incidents provoked a similar, if short-lived, increase in oil prices, as markets worried about the stability of a country which has a quarter of the world's proven oil reserves.

These events occurred, moreover, as the kingdom was at last making some headway in bringing its finances under control, after a decade of soaring budget and current account deficits.

The two shocks have also overshadowed Saudi Arabia's significantly improved relations with some of its neighbours. Border disputes have been settled or largely resolved with Kuwait, Qatar, Oman and - despite recent frontier clashes - Yemen.

The attention which the bombing and the King's illness have received outside the Kingdom have been magnified in proportion to the jealousy with which the Saudi authorities have sought to guard them from public view. King Fahd, for example, left hospital on December 8 and is recuperating from what is officially described as "a sudden indisposition" but is widely believed to have been a minor stroke.

The information vacuum has allowed lurid speculation to surround the two incidents, both inside the Kingdom, and

in the outside world where Islamist opponents of the ruling al-Saud dynasty conduct their fax-borne propaganda war against the regime. Their current line is that a power struggle has broken out inside the ruling family and that November's attack on the National Guard - which is headed by Crown Prince Abdullah, the King's heir-apparent - could have been part of this. Such ideas proliferate easily, and are part of the price the al-Saud pay for their closed society, where efforts to impose a combination of secrecy and strict security are frequently thwarted by the age of the modern fax.

The most likely perpetrators of the bombing are Saudi Islamic fundamentalists who, in the wake of the Gulf war, have called with growing stridency for fewer links with the US and the west, an end to alleged royal corruption, and in some cases for the ruling family to share power by allowing Saudis to elect representatives.

Islamist dissidence has risen since Saudi Arabia was used as the base for 800,000 US-led troops ranged against Iraq

charge of being subservient to the US which is in turn seen as pro-Israel and anti-Moslem.

Saudi Arabia, the original Islamic fundamentalist state following the al-Saud's 18th Century alliance with the austere Wahhabi brand of Islam, has forgotten its zeal, its skills, and the taste of victory in Afghanistan.

When the King extensively reshuffled the cabinet in

August to promote technocrats (20 out of 28 of his ministers have US degrees), the Saudi family tightened its control of the security set-up. But he also sacked six of the kingdom's seven university chancellors and replaced more than half the members of the Council of the Ulema, the religious establishment, in two little-noticed moves aimed at countering the spread of Islamist seafoty.

Throughout the Arab world, rulers are sensitive to the

Aficionados will only get really excited when Prince Sultan names his Crown Prince, says Prince Salman, the infallible governor of Riyadh.

All the above are full brothers except Prince Abdullah, a half-brother. But the Crown Prince has the National Guard, the main instrument of internal control; he is valued by the family for his rapport with the tribal Bedouin; and he is popular in spite of (perhaps even because of) his stuttering public manner. One moderate Islamist intellectual describes him as "a humanist" and a member of the court concurs, while complaining that he is "surrounded by bad advisers."

All this assumes that one-man control will endure undiminished, and highlights the absolutism of the Saudi

monarchy. "Decision-making is concentrated in one man," says one western ambassador, "and that cannot continue - not because there is anything inherently wrong with absolute monarchy, but because something that worked in 1985 when modern Saudi Arabia was put together by conquest won't work in 1996."

King Fahd two years ago created a *Majlis al-Shura* (consultative council), whose members he appoints, and whose deliberations he is free to ignore. This falls far short of demands from moderate Islamists and liberal critics for a move to an elected assembly. Yet last year's budget was submitted in outline to the *Majlis* and then amended in the light of its review - more than any elected parliament can claim

in shaping policy.

The consultation helped smooth the way for a second round of real spending and subsidy cuts which, along with a 21 per cent rise in the average Saudi oil price in the first half, have reduced the budget deficit from 17 per cent of GDP in 1993 to something near balance this year. The current account deficit has also shrunk, from 27 per cent in 1991 to a likely 4 per cent this year, according to a broadly complimentary recent IMF report.

There is less confidence of a return to high oil prices occurring rather a determination to keep crude output at current levels of 8m barrels a day so as never again to be caught with falling prices and falling production, as Saudi Arabia was

in the mid-1980s.

The new emphasis is on mobilising the private sector, through privatisation, more open capital markets, private financing of infrastructure and development of new mineral resources. The language is changing as such sectors as petrochemicals are opened to private business. Mr Ibrahim bin Salama, managing director of Satic, the highly profitable, majority state-owned petrochemicals and plastics group, says: "Our future depends on our competitiveness. We are competing worldwide; why shouldn't we compete inside the country?"

Such a trend could bring conflict with the 5,000-odd al-Saud princes, accustomed as many of them are to treating the country's wealth as private patrimony. Indeed, plans to tap export credits are coming to grief because of the kingdom's refusal to give "sovereign guarantees", easily construed as a possible lien on the private fortunes of the sovereign and his closest kin.

Yet the al-Saud, through family and tribal ties, have a finger on the pulse of their traditional but fast-changing society. Their resilience is legendary - surviving war, the strains of sudden oil wealth followed by an even more sudden oil price collapse, and Islamist challenge of the indigenous and Iranian variety. They can be expected to react vigorously to the challenge to their hegemony offered by November's bombing.

They are not about to become a bicycling monarchy but, in the view of one western ambassador, "they will now have to restrain members of the royal family, and turn the princes into paying members of society".

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| 100%              | 7.003        |
| 100%              | 43.8         |
| 100%              | 19.7         |
| 100%              | 27.0         |
| 100%              | 38.3         |
| 100%              | 19.8         |
| GDP               | 0.6          |
| 100%              | 7.4          |
| 100%              | 14.9         |
| 100%              | 1.046        |
| 100%              | 8.1          |
| 100%              | 285          |
| 100%              | 9.1          |
| 100%              | 42.2         |
| 100%              | 21.5         |
| 100%              | 20.7         |
| Exports           | 16.9         |
| 100%              | 16.8         |
| 100%              | 5.5          |
| 100%              | 2.3          |

ice Unit, Distrust, IMF, Inc.

lived in the context of regional instability.

The lesson of Saudi vulnerability can be seen in the Gulf war, which revealed Saudi's limited credibility.

What was equally clear was the hasty departure of the long force.

The economic programme is designed to correct these imbalances, but the kingdom's self-comforting nature is evident.

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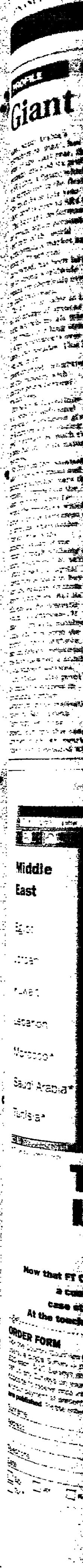
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 Kingdom of Saudi Arabia for buying our MD-90  
 and MD-11 aircraft for Saudi Arabian Airlines."

MCDONNELL DOUGLAS

## PROFILE

Sabic, petrochemicals group

## Giant doubled its profits

Sabic, Saudi Arabia's petrochemical giant, has come of age. Last year, the company doubled its profits to SR4.2bn, a figure which was surpassed in the first nine months of this year when profits rose to SR4.5bn.

The buoyant performance of the group, which accounts for 5 per cent of the world petrochemicals market and which is 70 per cent state-owned, has been largely due to strong worldwide demand for chemicals over the past two years.

The ability of Sabic to take full advantage of upturns in world petrochemicals markets is the result of a long stream of large investments over almost two decades. This has resulted in an export-oriented, integrated oil and gas industry with multiple petrochemicals product lines.

But Sabic will continue to be a focus for additional large-scale investment given the kingdom's continuing need to extract as much value as possible out of its natural resources.

Mr Ibrahim Ibn Salamah, Sabic's vice-chairman and managing director, says the company's impact on the Saudi economy goes far beyond the revenues which accrue to the government as the principal shareholder.

"Our key role is the industrialisation of the country through utilising our natural resources," he says.

Much of Sabic's capital expenditure is used to buy plant and equipment from foreign companies. But its influence on the domestic economy is significant. It employs a growing number of Saudis, who now form the majority of the workforce. In addition, Sabic's industrial sites have spawned a number of local support services.

Sabic officials also point to the company's success in encouraging further downstream industrialisation outside the Sabic group. Plastic supplies to the domestic economy this year have risen to 400,000 metric tonnes a year, compared with

60,000 tonnes in the mid-1980s. Company officials say the availability of such supplies has freed funds previously allotted to imports, and has "allowed local manufacturers to undertake dramatic expansion and diversification programmes".

The result, they say, is that the per capita consumption of plastic in Saudi Arabia

...will soon be the highest in the developing world and will quickly approach the levels of use in Europe and the US".

The company's ability to



Sabic plant: significant influence on the domestic economy

raise its own finance is also proving useful to a

government that is reluctant to borrow directly. Earlier this year, for example, a \$700m loan to the Saudi Petrochemical Company (Sadaf), a joint venture between Sabic and a subsidiary of Shell Oil of the US, was oversubscribed. A total of 39 local, Gulf and international banks

subscribed to the loan, one of the largest ever in the region. It will be used to help finance a planned \$900m expansion programme.

Sabic has also helped to spawn a "small shareholder culture" among ordinary Saudis. The 30 per cent of the company that is not controlled by the government is currently in the hands of about 100,000 Saudi private investors, according to Sabic officials.

Mr Henry Azzam, senior economist at the National Commercial Bank, believes more Sabic shares will be offered to the public, although some government officials may be reluctant to privatise it fully. "The question is, would you sell Sabic at a time when it is providing you with billions in revenues," says Mr Azzam.

The reported conversion in mid-December of one of Sabic's main divisions, Ibn Masoud, the Arabian Industrial Fibres Company, to a public joint stock company points to further structural changes in future.

The relative buoyancy of world chemical markets does not mean that Sabic will cease its efforts to become more competitive, says Mr Salamah. Although the Saudi industry's international competitive position is

underpinned by low cost raw materials, Sabic will continue to try to contain its costs. Mr Salamah estimates that world prices accounted for about 80 per cent of last year's profit performance. Efficiencies at Sabic contributed 20 per cent.

Sabic's key markets are in the fast-growing economies of Asia. But it is still bitter that it has only restricted access to European markets. "There has been no progress" on protracted talks with the European Union, says Mr Salamah. "We expect better treatment from our European friends."

Sabic has also been involved in a dispute with Aramco over the cost of natural gas, although Mr Salamah declines to characterise the negotiations between the two as such. But he says that "any increase in the price of gas would affect the performance of Sabic." Future plans for expansion "...depend on how competitive we are", he says.

Some industry observers say the issue of gas supplies is critical to the future of the petrochemicals industry and the speed with which private investment flows into it. They say a number of private sector-initiated petrochemicals projects have been delayed because of uncertainty over future gas supplies.

Robert Corzine

■ Foreign policy by David Gardner

## US alliance remains firm

Concern about 'overdependence on the Americans' extends far beyond the ranks of the Islamists

The car-bombing of a Saudi Arabian National Guard communications centre on November 13 in the heart of Riyadh, which claimed five US military advisers among its victims, was an attack on one of the cornerstones of Saudi policy – the relationship with Washington.

Although Saudi officials refused to speculate publicly on the motives of the attack or who was responsible, both they and their US counterparts were quick to announce that it would not succeed in prising apart the firm alliance between the two countries. What the bombing did highlight, however, is that this alliance remains politically sensitive inside the kingdom.

Whether or not the bombing was the work of external powers such as Iraq or Iran, or, more probably, was carried out by Saudi Islamic fundamentalists, with or without foreign support, it seems likely that only a minority of Saudis are outrightly hostile to King Fahd's pro-US and pro-Western stance. But muttering about "overdependence" on the Americans extends far beyond the ranks of the Islamists.

"We are totally oriented, commercially and politically, towards Washington," says one member of the King's court. "And that is not healthy." "We react, but we don't take the initiative; in my country the Americans have more rights than we do," remarked one Saudi businessman, commenting on Riyadh's muted response to the US Congress' votes to transfer the American embassy from Tel Aviv to Jerusalem, the east of which is regarded internationally as occupied Arab land.

The King and his foreign policy advisers appear to be aware of these sentiments, which built up considerably as a socially discomfiting by-product of Saudi Arabia serving as the base for 800,000 foreign

troops during the 1990-1991 Gulf crisis. That crisis did expose the vulnerability of the kingdom and the Gulf emirates to powerful neighbouring predators such as Iraq and their dependence on the US and its allies. But Riyadh has, nevertheless, sought to reduce the visibility of the relationship, not always without friction.

Links with the US go back to the first oil shipments from the kingdom in 1939 and the US-built foundations of the Saudi oil industry, and to the historic meeting in Egypt in 1945 between King Abdulaziz (Ibn Saud) and President Roosevelt. Oil-for-security has always been at the core of the relationship – Washington's most important alliance in the Middle East after that with Israel.

Mr Mahmoud Kurdi, deputy foreign minister, describes the relationship as one of "interdependence, not dependence", as this is what the courage to say no when proposals are not in the best interests of Saudi Arabia.

"We have a great zeal to preserve our independence," he says, adding that "we don't always share the strategic vision of the US".

This spring, for example, Riyadh upset Washington by refusing to allow the US to "pre-position" an armoured brigade inside the kingdom – as the Americans have done in Kuwait and Qatar – to enable a rapid reaction against threats to the Gulf. The foreign ministry readily supplies a reasoned view for Saudi reluctance, saying that such a force would encourage complacency and would scarcely have been appropriate to the sort of threat posed by Iraq in 1990-1991.

While sticking firm to the US alliance and equipping itself with predominantly American

critical of Saudi human rights abuses and corruption as they are of similar practices elsewhere.

An alternative, equally likely, explanation is that the Saudis wanted someone close to President Bill Clinton – which they got in former Mississippi Governor Raymond Mabus. The Saudi ambassador to Washington, Prince Bandar bin Sultan, is the King's nephew, and was elevated to ministerial rank, while remaining in situ in this August's cabinet reshuffle.

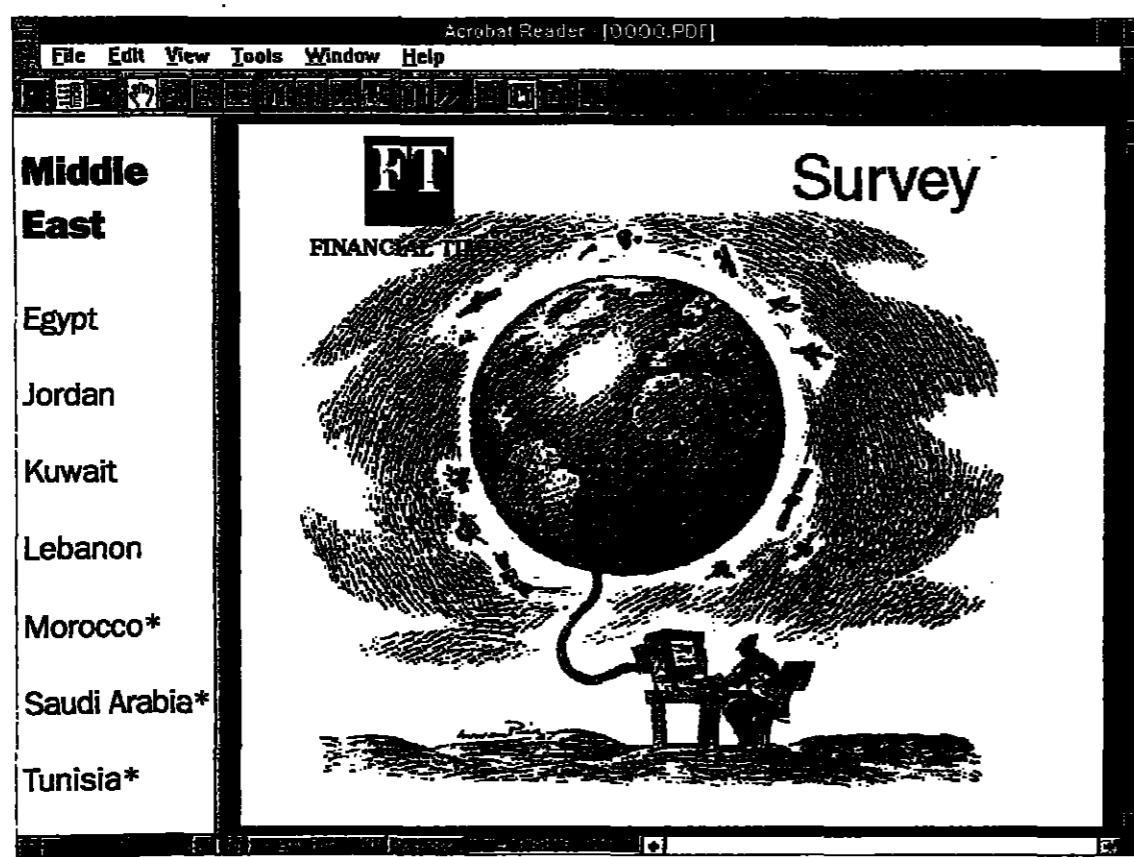
"We consider our relationship with the US a very special relationship," a senior foreign ministry official explains.

There are also nuances about Saudi reticence to end the cold war with Israel. Riyadh is, for example, close to lifting all aspects of the Arab commercial boycott of Israel, but unlike neighbouring Qatar and Oman, is not poised to enter commercial and diplomatic relations with the Jewish state. This attitude is unlikely to change until Syria and Lebanon reach peace terms with Israel, and perhaps until the status of Jerusalem is resolved between the Israelis and Palestinians.

The land-for-peace deals reached with Jordan and the Palestinians in 1988 and 1994 could be said to have their intellectual origins in a plan put forward by then Crown Prince Fahd in 1981, and Saudi diplomacy has worked behind the scenes to extend them. But Riyadh views "normalisation" with Israel ahead of a comprehensive settlement as dangerously divisive of Arab ranks.

And despite its muted response so far, it will have to have a special regard for Jerusalem, as Islam's third most holy site after Mecca and Medina – King Fahd's preferred title, it should not be forgotten, is Custodian of the Two Holy Mosques, and the al-Saud derive legitimacy from this role.

"Saudi Arabia is not just Saudi Arabia," says Mr Kurdi. "We represent more, in terms of the holy places, and for the Moslem world. A position taken by Saudi Arabia will be interpreted in the rest of the Moslem world as advice on which way to move." And the Saudis move with caution.



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The oil industry: by Robert Corzine

## Technocrats sway policy

Diplomats in Riyadh speak of an 'unwritten' agreement between Saudi Arabia and western governments

The oil policy of Saudi Arabia, the world's largest petroleum exporter, has long been the focus of endless speculation among international oil company executives and energy analysts.

Ask managers at refineries from Texas to Spain what the next year is likely to bring in terms of returns and margins, and you will probably be referred to 'those officials in Riyadh'. But they can provide only part of the answer. As befits an absolute monarchy, King Fahd has the ultimate say over such a strategic issue as oil production and pricing policy.

However, technocrats can exert some sway over the direction of the policy. The appointment as oil minister earlier this year of Mr Ali Naimi, a career executive with Saudi Aramco, the state oil company, was widely seen as a sign that the oil sector might be subjected to fewer political forces in future. Only time, however, will tell if that interpretation is correct.

But Mr Naimi's businesslike attitude was clearly on display during deliberations at the November meeting of the Organisation of Petroleum Exporting Countries.

The decision to extend the two-year-old production ceiling of 25.52m barrels a day for at least another six months was in line with Saudi concerns to ensure stability in world oil markets, even if so doing it gave non-Opec oil producers a 'free ride'.

Diplomats in Riyadh speak of an 'unwritten' agreement between Saudi Arabia and western governments, and especially the US, over keeping average oil prices in a \$15-\$18 range. Saudi officials reject

such links as a 'myth,' although they acknowledge that for the time being the kingdom can live with prices for the benchmark Brent Blend in a range of \$16-\$20.

They concede that political considerations, such as Saudi Arabia's dependence on the US for its defence, are factors which are considered when pricing policy is discussed. But they also note that the US, as the world's second-largest oil producer as well as its largest oil importer, has never concluded whether higher or lower oil prices would be better for its economy.

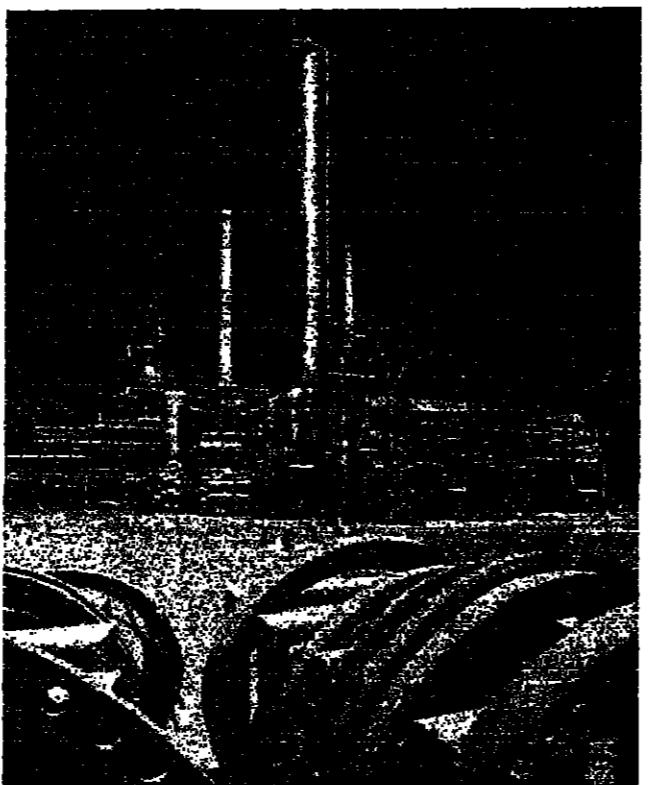
'But if oil prices rise, then the US are sure to get some of it back through increased Saudi purchases of US goods,' says one government official.

Saudi Arabia is secure in its position as the dominant member of Opec. But the declining influence of the organisation has caused some Saudi officials to reflect on how an 'Opec Mark II' that reflected recent changes in the structure of the international oil industry might be more desirable.

Saudi Arabia still believes that the world oil market needs some form of regulation. 'The ideal situation would be to have the largest companies and countries in one organisation,' said one official. But the conflicting interests of such a grouping would probably prove unworkable.

The preferred alternative for Saudi Arabia would be an organisation that included top non-Opec oil exporters. High on the Saudi list is Norway, the world's second-largest oil exporter, although other big non-Opec producers such as Mexico also figure prominently in their thinking.

The key, say Saudi officials, is to have member states in which there is a single, dominant state-owned producer. Saudi officials are suspicious of the current trend among some Opec states to invite international oil companies to take part in new exploration and production projects. 'When you have large numbers of companies operating in a coun-



The petrochemicals sector is expanding rapidly

Picture: Frank Sponer

try then you have to have domestic quotas as well as a national quota,' says one official.

It is not clear whether Saudi Arabia will actually make any moves to reform Opec in coming years. What is clear is that the Saudis see no need to emulate their Opec colleagues in inviting foreign companies to take part directly in the oil and gas industry.

Government officials say they are confident in Aramco's ability to oversee the development of the industry. The \$2.5bn project to develop the Shaybah oilfield in a remote area in the south-east of the country is a purely Aramco undertaking, although foreign contractors will be responsible for much of the development.

The field contains about 7bn barrels of light, sweet crude which should command a premium on world markets. Output is likely to be about 500,000 b/d by 1998. But it is only intended to make up for declining production at existing fields and will not result in a further expansion of Saudi Aramco's capacity of about 10m b/d.

Over the past year, Opec producers have been frustrated by their inability to capture a share of the growth in the world oil market. Saudi Arabia has formally joined the chorus of complaints, but officials say the kingdom is content to stick with its present Opec quota of 8m b/d.

That level of oil output also ensures that there is sufficient associated natural gas produced for power stations and for the rapidly expanding petrochemicals business, a sector which is making a growing contribution to the country's balance of payments.

Aramco is planning to develop separate gas reserves. But its current dependence on associated gas has caused some analysts to wonder whether the country can cut oil output without damaging downstream industries.

Mr Henry Azzam, a senior economist at National Commercial Bank in Jeddah, says Saudi Arabia is 'now geared to production of 8m b/d no matter what happens,' in large part because of its gas requirements.

Government officials and Aramco executives see future export growth centred in Asia. The current strategy, which includes a mixture of exports and direct investment in Asian refineries and other downstream facilities, is likely to continue. But financial pressures in Saudi Arabia suggest that the expansion overseas will be measured rather than rapid.

Mr Mohammed Rashid al-Dahlawi, assistant deputy minister for mining affairs in Jeddah, says Saudi officials now accept that they have to compete for capital. 'We are aware of these things now,' he says.

Mr al-Dahlawi believes most international companies are satisfied with the present mining code. But the kingdom is 'currently studying incentives

■ Minerals: by Robert Corzine

## Relatively slow development

The government believes that mining is a sector in which direct foreign investment is acceptable

Saudi Arabia is usually associated with black gold, although relatively large amounts of the real thing await exploitation as well, say government officials.

The development of the mineral wealth of Saudi Arabia has been relatively slow given the obvious emphasis on oil.

The government, however, would like to accelerate the development of mineral resources, especially gold and phosphates, as part of the diversification of the economy. It also believes that mining is a sector in which direct foreign investment is acceptable.

But foreign involvement in the Saudi economy is rarely free of controversy. Some elements in the government appear particularly reluctant to allow foreign companies access to gold deposits, according to observers familiar with the industry.

The key is the policy towards gold,' says one westerner who follows industry developments closely. 'Some Saudis say: 'It's ours, why should we give it away?'

But it may be necessary to allow foreigners into the gold sector, where paybacks are relatively quick, if the kingdom is to attract international investment in larger, long-term projects to develop industrial metals and phosphates.

Critics also say the government has been slow to appreciate the scale of the worldwide competition for foreign investment in mining. The end of the cold war has opened up the mineral resources of the former Soviet Union to foreign companies, while many third world countries in Africa, Latin America and Asia have dropped earlier opposition to foreign involvement in mining and are competing fiercely for investment.

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Mr al-Dahlawi believes most international companies are satisfied with the present mining code. But the kingdom is 'currently studying incentives

to investors offered by other countries. We will try to select those elements which fit in with our style of life,' he says.

Issues being examined include accelerated depreciation, the appropriate percentage of profit sharing, taxation levels and depletion allowances. Tax concessions, however, are expected to be linked to projected returns from individual projects.

Foreign companies have been particularly keen to ensure that the mining rules are applied consistently to one industry. One of the main messages to Saudi officials from industry seminars they have held abroad is: 'Please do not change your rules every year.'

Foreign companies would also like to see the approval process for individual projects streamlined. Other obstacles to the faster expansion of mining include the lack of electrical power and water at remote sites.

But the government says it is prepared to help the private sector overcome such problems. Its emphasis on developing the industry stems in large part from the need to provide jobs for the growing number of younger Saudis.

Officials at the Ministry of Petroleum and Mineral Resources predict that the sector will grow at an annual rate of more than 8 per cent over

the next few years. But profits from mining are not viewed as a major source of future government revenues. Instead, officials hope that a big expansion of the mining industry will have positive effects on the domestic economy, especially in the rural areas.

At present, gold production is about 200,000 ounces a year. The US Geological Survey believes output could eventually rise to 400,000-500,000 ounces with the long-term production rate, somewhere between 300,000 ounces and 500,000 ounces a year, that would place the country in the medium to large category of gold producers.

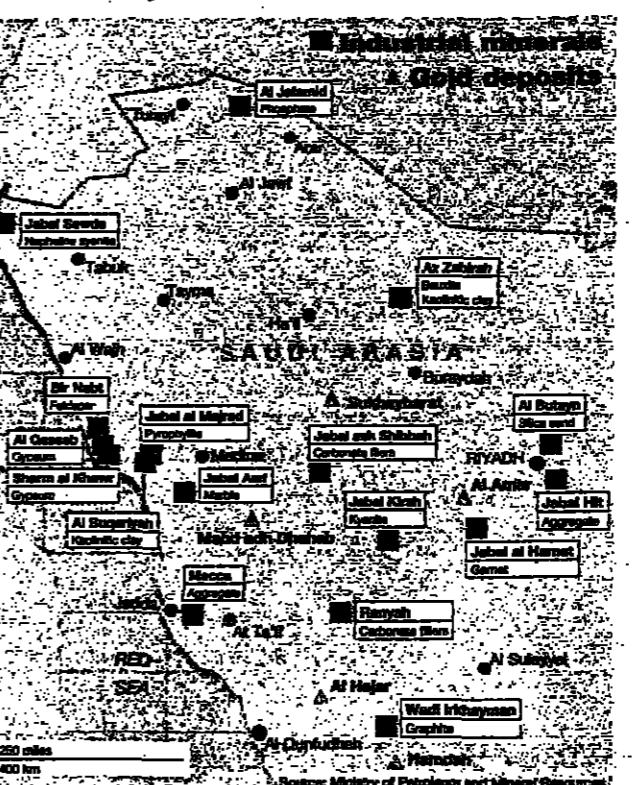
The development of phosphates reserves is another priority for the government. Extensive deposits at Al-Jalamid in the north of the country are part of the same, dry-bearing belt that extends from Morocco through Jordan to Saudi Arabia. Eventual production could be as high as 2.5m tonnes a year of diammonium phosphate, the raw material for fertiliser.

Government officials say exploitation of the reserves could make Saudi Arabia a leading fertiliser producer, with a competitive advantage of being relatively close to growing markets in southern Asia.

Development of the reserves would also have an immediate impact on Saudi's balance of payments, because it would no longer have to import phosphates from Morocco. But the remote location of the deposits has hampered development efforts.

Two proposals are being considered to move the phosphate to planned processing facilities at Jubail on the coast. One would involve the construction of a pipeline that would transport the phosphate in slurry form. The alternative, a proposed rail link, would be up to four times more expensive to build. But Saudi officials say it could be the key to economic development across a wide swathe of northern Saudi Arabia, although financing such a large infrastructure project could strain the government's budget.

The government says three or four companies are expected to submit detailed proposals for the phosphate project by March next year. Cabinet approval is expected to take at least six months, with full implementation of the project taking place over three to five years.



■ Defence: by Robin Allen

## Security forces are stretched

The sheer size of the country and the length of its land and sea borders make the task daunting

For the ruling al-Saud family, 'defence of the realm' goes well beyond the requirements normally associated with strategic priorities of deterrence against external aggression.

The kingdom's defence and national security concerns have several other strands. They include internal intelligence, surveillance and security directed by Prince Nayef, the interior minister, containing historical border disputes with its neighbours; providing internal security assistance to at least one neighbouring state, Bahrain; and supervising the distribution of Saudi funds to Islamic organisations overseas to ensure the money does not go to politically-active groups trying to exploit local discontent against the al-Saud.

At the conventional level alone, the sheer size of the country and the length of its land and sea borders make the job daunting enough. Saudi Arabia is one-third the size of the US with a Saudi population of only 12m. To the north it has 1,000km of hostile border with Iraq and more than 600km with Jordan. To the south there is a further 1,500km of uneasy border with Yemen, plus 1,000km - now officially settled - with Oman; and a further 500km border with the UAE. It has a smattering and politically intractable border dispute with Qatar. In addition, there are 2,000km of border along the Red Sea and a further 700km along its eastern Gulf coast opposite an unpredictable Iran.

The problems of providing adequate internal surveillance and security have been illustrated by the November 13 car bomb explosion in Riyadh, and the failure so far to find those responsible. The attack was a sharp reminder not only of Saudi Arabia's porous borders but of its immense size and the relative ease with which individuals can avoid the authorities.

Its armed forces number about 180,000 and some 80 per

cent of these are ground forces in the national, conventional, army under Prince Sultan, some 5,000 of which are stationed in Hafar al-Batin near the Kuwaiti border as part of the regional 'Peninsular Shield' force; and the Saudi Arabia National Guard (Sang), which also has its own air force units.

Sang is more akin to a royal bodyguard and is separately commanded by the Crown Prince and first deputy prime minister Prince Abdul-Aziz, the King's brother. The balance of the forces is made up of the navy and coastguard - 12,000 men - and the air force, 18,000.

According to the ISS, maintaining and equipping these forces cost \$12.9bn this year, one-third of total budget expenditure, 11 per cent of gross domestic product. Budgetary cutbacks have delayed new orders for more main battle tanks - and also delayed payments for US equipment against a \$1.2bn to re-equip four frigates sold 15 years ago.

Despite these huge outlays, Saudi Arabia remains heavily dependent on the US in order to maintain a credible deterrent. US and British air force units are stationed in Dhahran as part of 'Southern Watch,' the aerial supervision of Iraq south of the 32nd Parallel. Unofficial sources in Riyadh say there are thousands of US troops exercising and training Saudi forces.

But the official Saudi refusal to allow the US to pre-position supplies and the poor level of co-operation among Gulf countries' defence forces cause anxiety in Washington, where senior officials last September stressed the need for 'greater access and more pre-positioning of equipment'. Given Saudi Arabia's domestic political climate however, this is unlikely to be forthcoming.

Time and resources are also needed to contain border disputes with Qatar and Yemen to name only two. There is Saudi assistance to Bahrain's security forces to contain unrest in that country. These are political rather than overt military problems, and Saudi Arabia's 'covert' but all-too-conspicuous role in Bahrain is not winning friends for the al-Saud in the wider Arab and Moslem world.

The supervision of funds distributed to Islamic organisations overseas stems from the kingdom's own internal unrest and efforts to counter it. In October 1994, the government established the Supreme Council for Islamic Affairs under the chairmanship of Prince Sultan bin Abdul-Aziz, the defence minister. It was he who is now responsible for preventing the misuse of funds sent to Islamic groups abroad.

For the west, Saudi Arabia is the linchpin of security in the wider Gulf area, which supplies a third of the west's daily crude oil needs.

The 1990-91 Gulf war demonstrated Saudi Arabia's numerical and qualitative inferiority when confronted by Iraqi aggression. To counter this persistent threat and to plan for other eventualities from Iran or elsewhere, the kingdom has to rely on superior training and weaponry, a commitment from its government and armed forces and speed of response.

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